Merus Labs International Inc.
Form 20-F
April 16, 2012

As filed with the Securities and Exchange Commission on **April 13, 2012**

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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, 2011***

OR

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

For the transition period from _____ *to* _____

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)

30 St. Patrick St., Ste. 301, Toronto, Ontario, Canada M5T 3A3
(Address of principal executive offices)

Andrew Patient, Tel. 416-593-3725 Fax 416-593-4434, 30 St. Patrick St., Ste.301,

Toronto Ontario, Canada M5T 3A3
(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: At September 30, 2011, there were 8,028,377 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: [ ] NO: [X]

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

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.
YES: [X] 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 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: [X] 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 Accounting Standards Board [ ] Other [X]

Indicate by check mark which financial statement item the Registrant has elected to follow.
Item 17: [X] 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: [ ] NO: [X]

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Explanatory Notes

Merus Labs International Inc. (Merus , the Company we , us , or our) was formed on December 19, 2011 amalgamation (the Amalgamation) of Merus Labs International Inc. (Old Merus) and Envoy Capital Group Inc. (Envoy). The Amalgamation occurred on December 19, 2011, which is after Envoy s year end. Thus, Merus is required to file this Annual Report on Form 20-F (the Annual Report) for Envoy s financial year ended September 30, 2011. Although this Annual Report includes descriptions of the Amalgamation and the business of Merus after the closing of the Amalgamation, the financial statements and information included by reference hereto are only those of Envoy as of September 30, 2011.

All information contained in this Annual Report is as of September 30, 2011, unless otherwise indicated. All references to Common Shares are to the common shares of Merus.

About Forward-Looking Information

This Annual Report and the documents incorporated by reference herein contain certain statements or disclosures that may constitute forward-looking information or statements (collectively, forward-looking information) under applicable securities laws. All statements and disclosures, other than those of historical fact, which address activities, events, outcomes, results or developments that management of Merus, as applicable, anticipates or expects may or will occur in the future (in whole or in part) should be considered forward-looking information. In some cases, forward-looking information can be identified by terms such as forecast , future , may , will , expect , anticipate could , potential , enable , plan, continue , contemplate , pro forma or other comparable terminology. Forwa information presented in such statements or disclosures may, among other things include: sources of income; forecasts of sales and associated expenditures, including general and administrative expenses, and the sources of the financing thereof; expectations regarding the ability to raise capital; movements in currency exchange rates; anticipated income taxes; Merus business outlook; plans and objectives of management for future operations; forecast business results; and anticipated financial performance.

Various assumptions or factors are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking information. Those assumptions and factors are based on information currently available to Merus, including information obtained from third-party industry analysts and other third party sources. In some instances, material assumptions and factors are presented or discussed elsewhere in this Annual Report in connection with the statements or disclosure containing the forward-looking information.

You are cautioned that the following list of material factors and assumptions is not exhaustive. The factors and assumptions include, but are not limited to:

- no unforeseen changes in the legislative and operating framework for the business of Merus;
- a stable competitive environment; and

- no significant event occurring outside the ordinary course of business such as a natural disaster or other calamity.

The forward-looking information in statements or disclosures in this Annual Report is based (in whole or in part) upon factors which may cause actual results, performance or achievements of Merus to differ materially from those contemplated (whether expressly or by implication) in the forward-looking information. Those factors are based on information currently available to Merus including information obtained from third-party industry analysts and other third party sources. Actual results or outcomes may differ materially from those predicted by such statements or disclosures. While Merus does not know what impact any of those differences may have, their business, results of operations, financial condition and credit stability may be materially adversely affected. Factors that could cause actual results or outcomes to differ materially from the results expressed or implied by forward-looking information include, among other things:

- the acceptance of the Company s products by provincial drug benefit formularies, hospital formularies and pharmacies, physicians and patients in the marketplace;
- the Company s ability to successfully market and sell its products;
- delays or setbacks with respect to clinical trials, governmental approvals, or manufacturing or commercial activities;
- the timing and unpredictability of regulatory actions;
- the patient health, legal, and commercial risks associated with patient adverse events or side effects resulting from the use of the Company s products;
- the ability to develop and commercialize new products effectively;
- unanticipated cash requirements to support current operations, to expand its business or for capital expenditures;
- the inability to adequately protect its key intellectual property rights;
- the loss of key management or scientific personnel;
- the activities of its competitors and specifically the commercialization of innovative or generic products that compete in the same category as the Company s products;
- regulatory, legal or other setbacks with respect to its operations or business;
- market conditions in the capital markets and the biopharmaceutical industry that make raising capital or consummating acquisitions difficult, expensive or both;
- enactment of new government laws, regulations, court decisions, regulatory interpretations or other initiatives that are adverse to the Company or its interests;
- the risk that the Company is not able to arrange sufficient, cost-effective financing to repay maturing debt and to fund expenditures, future operational activities and acquisitions, and other obligations; and
- the risks associated with legislative and regulatory developments that may affect costs, revenues, the speed and degree of competition entering the market, global capital markets activity and general economic conditions in geographic areas where the Company operates.

Merus is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. Because of the risks, uncertainties and assumptions contained herein, security holders should not place undue reliance on forward-looking statements or disclosures. The foregoing statements expressly qualify any forward-looking information contained herein.

The reader is further cautioned that the preparation of financial statements in accordance with Canadian GAAP or IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

Merus cautions you that the above list of risk factors is not exhaustive. Other factors which could cause actual results, performance or achievements of Merus as applicable, to differ materially from those contemplated (whether expressly or by implication) in the forward-looking statements or other forward-looking information are disclosed in Merus publicly filed disclosure documents, including those disclosed under Risk Factors in this Annual Report.

Currency

Envoy presents its consolidated financial statements in Canadian dollars. In this annual report, except where otherwise indicated, all dollar amounts are expressed in Canadian dollars. References to $ are to Canadian dollars, references to U.S.$ are to United States dollars. See Selected Financial Data in Item 3 of this Form 20-F.

PART I

Item 1: Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2: Offer Statistics and Expected Timetable

Not applicable.

Item 3: Key Information

A. Selected Financial Data

The following tables sets forth selected financial data for Envoy for the fiscal years indicated below and should be read in conjunction with the more detailed audited consolidated financial statements and the related notes thereto (the Consolidated Financial Statements) appearing under Item 17 in this Form 20-F and the discussion under Item 5 Operating and Financial Review and Prospects herein. The selected consolidated financial data does not include statements of operations data or balance sheet data of any acquired operations prior to their respective acquisition effective dates. Envoy s historical results are not indicative of the results that may be expected for any future period for Merus.

Statement of Operations Data

Fiscal Years Ended September 30 *(all amounts in thousands except per share data)*	**2011**	**2010**	**2009**	**2008**	**2007**
Net Revenue	$ 1,882	$ 1,113	$ 586	$ (4,255)	$ 5,148
(Loss) Earnings From Continuing Operations	(6,788)	(4,332)	(7,148)	(10,158)	2,641
(Loss) Earnings From Discontinued Operations	(679)	189	(3,327)	nil	375
(Loss) Earnings From Continuing Operations Basic Earnings Per Share	(0.85)	(0.52)	(0.84)	(1.11)	0.20
(Loss) Earnings From Continuing Operations Diluted Earnings Per Share	(0.85)	(0.52)	(0.84)	(1.11)	0.20
Net (Loss) Earnings	(7,467)	(4,142)	(10,476)	(10,158)	3,017
Net (Loss) Earnings Per Share Basic	(0.93)	(0.50)	(1.22)	(1.11)	0.23
Net (Loss) Earnings Per Share Diluted	(0.93)	(0.50)	(1.22)	(1.11)	0.23

Reconciliation

The Consolidated Financial Statements have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP) which vary in certain significant respects from U.S. Generally Accepted Accounting Principles (U.S. GAAP). Reconciliation to U.S. GAAP for fiscal 2011 and 2010 is set forth in Note 19 to the Notes to the Consolidated Financial Statements.

The following would be the adjustments under U.S. GAAP to the information provided above as an increase (decrease) to: Net revenue 2011 ($1,882), 2010 ($1,113), 2009 ($586), 2008 $4,255 and 2007 ($5,148); (Loss) earnings from continuing operations 2011 ($51), 2010 ($137), 2009 ($283), 2008 $1,686 and 2007 ($1,136); (Loss) earnings from continuing operations earnings per share basic 2011 $nil, 2010 ($0.02), 2009 ($0.04), 2008 $0.18 and 2007 ($0.09); (Loss) earnings from continuing operations earnings per share diluted 2011 $nil, 2010 ($0.02), 2009 ($0.04), 2008 $0.18 and 2007 ($0.09); Net (loss) earnings 2011 ($51), 2010 ($137), 2009 ($283), 2008 $4,490 and 2007 ($1,136); and Net (loss) earnings per share basic 2011 $nil, 2010 ($0.02), 2009 ($0.04), 2008 $0.49 and 2007 ($0.09); Net (loss) earnings per share diluted 2011, $nil, 2010 ($0.02), 2009 ($0.04), 2008 $0.49 and 2007 ($0.09).

Balance Sheet Data

As at September 30 *(all amounts in thousands)*	2011	2010	2009	2008	2007
Current Assets	$ 9,891	$ 18,250	$ 21,476	$ 28,823	$ 38,808
Total Assets	11,019	19,570	23,595	36,482	50,792
Total Debt[(1)]	-	-	-	70	157
Shareholders Equity	10,333	16,861	21,624	32,159	45,157
(Deficit) Retained Earnings[(2)]	(29,149)	(21,682)	(17,540)	(7,064)	3,094

1 Total debt includes both the current and long term portion of debt.

2 Retained earnings as of September 30, 2007 excludes the cumulative foreign currency translation adjustment of ($77). See Note 2(f) in the Notes to Consolidated Financial Statements of Envoy.

Reconciliation

As reflected in Note 19 to the Consolidated Financial Statements, the net (loss) earnings from continuing operations for the fiscal years ended September 30, 2011, 2010, 2009, 2008 and 2007 were ($6,839), ($4,469), ($7,432), ($10,276) and $32, respectively under U.S. GAAP. The net (loss) earnings for the fiscal years ended September 30, 2011, 2010, 2009, 2008 and 2007 were $(7,518), ($4,279), ($10,759), ($5,668) and $1,777, respectively under U.S. GAAP. The diluted net (loss) earnings per share for the years ended September 30, 2011, 2010, 2009, 2008 and 2007 were ($0.93), ($0.52), ($1.26), ($0.62) and $0.14, respectively under U.S. GAAP.

As reflected in Note 19 to the Consolidated Financial Statements, the shareholders equity as at September 30, 2011, 2010, 2009, 2008 and 2007 was $10,332, $16,912, $21,813, $32,631, and $41,140, respectively under U.S. GAAP. Total assets as of September 30, 2011, 2010 and 2009 under U.S. GAAP would exclude fair value adjustments of $nil, $51 and $189, respectively. In addition, total assets as of September 30, 2007 under U.S. GAAP would exclude the unrealized gain on private equities of $1,147, exclude capitalized incorporation costs of $66, and exclude cash held in escrow relating to the sale of the UK operations of $2,803.

Dividends

Merus has never paid any dividends on its common shares and does not anticipate that it will pay any cash dividends on its common shares in the foreseeable future. Any decision to pay dividends in the future will be at the discretion of Merus board of directors, after taking into account such factors as Merus financial condition, operating results, current and anticipated cash needs and plans for expansion.

Exchange Rates:

On April 6, the noon buying rate for Canadian dollars as certified for customs purposes by the Federal Reserve was $1.00 U.S. to $0.9971. The following table sets forth for the periods indicated certain information regarding the exchange rates of Canadian dollars into U.S. currency. The rate of exchange means the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve.

	Fiscal Year Ended September 30,				
	2011	2010	2009	2008	2007
Average[(1)]	0.9872	$1.0465	$1.1787	$1.0101	$1.0885

1 The Average rate means the average rates each period, calculated by using the average of the exchange rates on the last day of each month during the fiscal period.

	For the Month Ended					
	February 2012	January 2012	December 2011	November 2011	October 2011	September 2011
High	$1.0028	$1.0270	$1.0396	$1.0487	$1.0605	$1.0389
Low	$0.9895	$1.0007	$1.0096	$1.0125	$0.9932	$0.9751

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Merus Business and Industry

Ability to Implement Merus Strategy to Grow the Business

Merus has historically increased sales and net income through strategic acquisitions, licensing and related internal growth initiatives intended to develop marketing opportunities with respect to acquired product lines. Merus strategy is focused on increasing sales and enhancing its competitive standing and enabling it to promote and sell new products through existing and new marketing and distribution channels. Since Merus engages in limited proprietary research activity with respect to product development, it relies heavily on purchasing product lines from other companies. Other companies, many of which have substantially greater financial, marketing and sales resources than Merus, may compete for the acquisition of products. Merus may not be able to acquire rights to additional products on acceptable terms, if at all, or be able to obtain future financing for acquisition on acceptable terms, if at all. The inability to effect acquisitions of additional branded products could limit the overall growth of the business. Furthermore, even if Merus is able to obtain rights to pharmaceutical products, Merus may not generate sales sufficient to create a profit or otherwise avoid a loss. For example, the marketing strategy, distribution channels and levels of competition with respect to acquired products may be different than those of Merus current products, limiting its ability to compete favorably in those product categories.

Ability to Acquire License Rights to New Products

Merus depends on the acquisition of rights to products from other companies as the primary source for new products. Risks in acquiring new products include: a) the ability to locate new products that are attractive and complement Merus business, and b) the price to acquire or obtain the license for these products may be too costly to justify the acquisition. Merus also faces competition from other pharmaceutical companies in acquiring rights to products, which makes it more difficult to find attractive products on acceptable terms.

The pharmaceutical industry is highly competitive and is subject to rapid and significant technological change, which could render technologies and products obsolete or uncompetitive.

Merus products will face competition from new pharmaceutical and biotech products that treat some of the same diseases and conditions as Merus products. Many of Merus competitors have greater financial resources and selling and marketing capabilities. Merus will face further competition from drug development companies that focus their efforts on developing and marketing products that are similar in nature to its products, but that in some instances offer improvements over Merus products, such as less frequent dosing, more pleasant taste, new dosage formats and other novel approaches to improve existing products. Merus competitors may succeed in developing technologies and products that are more effective or less expensive to use than any that Merus may license or acquire. These developments could render Merus products obsolete or uncompetitive, which would have a material adverse effect on Merus business, financial condition and operating results.

Recently, Optimer announced that Health Canada awarded Optimer priority review for its product: DIFICID®. DIFICID® is another method for the treatment of Clostridium difficile infection. Optimer asserts that DIFICID® has a slightly lower recurrence rate than Vancocin®. If Optimer is able to demonstrate that DIFICID® is preferable to Vancocin®, the business of Merus could be adversely affected.

Core patent protection for Merus initial portfolio has expired or will soon expire, which could result in significant competition from generic products resulting in a significant reduction in sales.

The core patents protecting its products have expired or will soon expire, which could result in significant competition from generic products and could result in a significant reduction in sales. In order to continue to obtain commercial benefits from Merus products, it will rely on product manufacturing trade secrets, know-how and related non-patent intellectual property. The effect of this patent expiration depends, among other things, upon the nature of the market and the position of Merus products in the market from time to time, the growth of the market, the complexities and economics of manufacture of a competitive product and regulatory approval requirements of generic drug laws. In the event that competition develops from generic products, this competition could have a material adverse effect on its business, financial condition and operating results.

The entrance into the market of a generic pharmaceutical product may erode the branded product s market share which may have a material adverse effect on Merus business, financial condition and results of operations. In December 2011, Health Canada granted a notice of compliance (NOC) to Pharmaceutical Partners of Canada Inc. (PPC), which allows PPC the authority to market their generic version of Vancocin capsules in the Canadian market. Should a generic version of Vancocin commercially launch, the sales of Vancocin may decline significantly.

Merus may be subject to product liability claims, which can be expensive, difficult to defend and may result in large judgments or settlements.

The administration of drugs to humans, whether in clinical trials or after marketing clearance is obtained, can result in product liability claims. Product liability claims can be expensive, difficult to defend and may result in large judgments or settlements against Merus. In addition, third party collaborators and licensees may not protect Merus from product liability claims.

Merus will maintain product liability insurance in connection with the marketing of its products. Merus may not be able to obtain or maintain adequate protection against potential liabilities arising from product sales. If Merus is unable to obtain sufficient levels of insurance at acceptable cost or otherwise protect against potential product liability claims Merus will be exposed to product liability claims. A successful product liability claim in excess of its insurance coverage could harm its financial condition, results of operations and prevent or interfere with its product commercialization efforts. In addition, any successful claim may prevent Merus from obtaining adequate product liability insurance in the future on commercially desirable terms. Even if a claim is not successful, defending such a claim may be time-consuming and expensive.

Unexpected Product Safety or Efficacy Concerns

Unexpected safety or efficacy concerns can arise with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales, as well as product liability, consumer fraud and/or other claims.

Uncertainty can arise regarding the applicability of Merus proprietary information.

Merus will rely on trade secrets, know-how and other proprietary information as well as requiring employees, suppliers and other third-party service providers to sign confidentiality agreements. However, these confidentiality agreements may be breached, and Merus may not have adequate remedies for such breaches. Others may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology. Third parties may otherwise gain access to Merus proprietary information and adopt it in a competitive manner. If a third party obtains Merus proprietary information and adopts it in a competitive manner, it may have a material effect on Merus business, financial condition and operating results.

Merus may not be able to secure additional financing.

There can be no assurance that Merus will be able to raise the additional funding that it needs to carry out its business objectives. The development of Merus business depends upon prevailing capital market conditions, Merus business performance and its ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that Merus will be successful in obtaining required financing as and when needed or at all. If additional financing is raised by the issuance of shares from treasury, control of Merus may change and shareholders may suffer additional dilution.

Merus may not be ability to implement its business strategy.

The growth and expansion of Merus business will be heavily dependent upon the successful implementation of its business strategy. There can be no assurance that Merus will be successful in the implementation of its business strategy.

Merus will rely on third parties to manufacture its products.

Merus will not have the internal capability to manufacture pharmaceutical products and will rely on third parties to manufacture its products. Merus cannot be certain that manufacturing sources will continue to be available or that it will be able to continue to outsource the manufacturing of its products on reasonable or acceptable terms. In addition, outsourcing manufacturing will expose Merus to a number of risks which are outside its control, including: its suppliers may fail to comply with government mandated current good manufacturing practices which include quality control and quality assurance requirements, as well as the corresponding maintenance of records and documentation and manufacture of products according to the specifications contained in the applicable regulatory file resulting in mandated production halts or limitations; or its suppliers may experience manufacturing quality, control or yield issues which would require the supplier to halt or limit production of its products.

If Merus encounters delays or difficulties with contract manufacturers, packagers or distributors, sales of Merus products could be delayed. If Merus changes the source or location of supply or modifies the manufacturing process, regulatory authorities will require it to demonstrate that the product produced by the new source or from the modified process is equivalent to the product used in any clinical trials that were conducted. If Merus is unable to demonstrate this equivalence, it will be unable to manufacture products from the new source or location of supply, or use the modified process. Merus may incur substantial expenses in order to ensure equivalence. This may negatively affect its business, financial condition and operating results.

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If its supply of finished products is interrupted, Merus ability to maintain inventory levels could suffer and future revenues could be delayed.

Supply interruptions may occur and Merus inventory of finished products may not always be adequate to satisfy demand. Numerous factors could cause interruptions in the supply of Merus finished products, including failure to have a third party supply chain validated in a timely manner, shortages in raw material and packaging components required by its manufacturers, changes in its sources for manufacturing or packaging, its failure to timely locate and obtain replacement manufacturers as needed and conditions affecting the cost and availability of raw materials. There can be no assurances that Merus other products will not be interrupted in the future. This may have an adverse effect on its business, financial results and operations.

Merus will rely on third parties to perform distribution, logistics, regulatory and sales services for its products.

Merus will rely on third parties to provide distribution, logistics, regulatory and sales services including warehousing of finished product, accounts receivable management, billing, collection and record keeping. If the third parties cease to be able to provide Merus with these services, or do not provide these services in a timely or professional manner Merus may not be able to successfully manage the product revenues or integrate new products into its business, which may result in decreases in sales. Additionally, any delay or interruption in the process or in payment could result in a delay delivering product to its customers, which could have a material effect on Merus business, financial condition and operating results.

The publication of negative results of studies or clinical trials may adversely impact Merus products.

From time-to-time, studies or clinical trials on various aspects of pharmaceutical products are conducted by academics or others, including government agencies. The results of these studies or trials, when published, may have a dramatic effect on the market for the pharmaceutical product that is the subject of the study. The publication of negative results of studies or clinical trials related to Merus products or the therapeutic areas in which Merus products compete could adversely affect Merus sales, the prescription trends for Merus products and the reputation of Merus products. In the event of the publication of negative results of studies or clinical trials related to Merus products or the therapeutic areas in which Merus products compete, Merus business, financial condition, and operating results could be materially adversely affected.

Merus must successfully integrate any products that it has acquired or will acquire in the future.

Merus will pursue additional products that could complement or expand its business. However, there can be no assurance that Merus will be able to identify appropriate acquisition candidates in the future. If an acquisition candidate is identified, there can be no assurance that Merus will be able to successfully negotiate the terms of any such acquisition, finance such acquisition or integrate such acquired product or business into its existing products and business. Furthermore, the negotiation of potential acquisitions and integration of acquired product lines could divert management s time and resources, and require significant resources to consummate. If Merus consummate one or more significant acquisitions through the issuance of shares, Merus shareholders could suffer significant dilution of their ownership interests.

Merus will depend on key managerial personnel for its success.

Merus will be highly dependent upon qualified managerial personnel. Its anticipated growth will require additional expertise and the addition of new qualified personnel. There is intense competition for qualified personnel in the pharmaceutical field. Therefore, Merus may not be able to attract and retain the qualified personnel necessary for the development of its business. The loss of the services of existing personnel, as well as the failure to recruit additional key managerial personnel in a timely manner, would harm its business development programs, and its ability to manage day-to-day operations, attract collaboration partners, attract and retain other employees and generate revenues. Merus will not maintain key person life insurance on any of its employees.

Increases in sales may attract generic competition.

Merus expects its initial portfolio to continue to enjoy market exclusivity due to a number of factors, including economic barriers to competition. If sales of its initial portfolio were to increase substantially, competitors may be more likely to develop generic formulations that compete directly with Merus products. Increased generic competition would have a material adverse effect on its business and financial results.

Merus business will be subject to limitations imposed by government regulations.

In both, domestic and foreign markets, the formulation, manufacturing, packaging, labelling, handling, distribution, importation, exportation, licensing, sale and storage of its products are affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints which are beyond Merus control. Such laws, regulations and other constraints may exist at all levels of government. There can be no assurance that Merus will be in compliance with all of these laws, regulations and other constraints. Failure to comply with these laws, regulations and other constraints or new laws, regulations or constraints could lead to the imposition of significant penalties or claims and could negatively impact Merus business. In addition, the adoption of new laws, regulations or other constraints or changes in the interpretations of such requirements may result in significant compliance costs or lead Merus to discontinue product sales and may have an adverse effect on the marketing of Merus products, resulting in significant loss of sales.

In the United States, the FDA perceives any written or verbal statement used to promote or sell a product that associates an unapproved nutrient with a disease (whether written by Merus, the content of a testimonial endorsement or contained within a scientific publication) to be evidence of intent to sell an unapproved new drug. If any such evidence is found with respect to Merus products, the FDA may take adverse action against Merus, ranging from a warning letter necessitating cessation of use of the statement to injunctions against product sale, seizures of products promoted with the statements, and civil and criminal prosecution of Merus executives. Such actions could have a detrimental effect on sales.

Policies Regarding Returns, Allowances and Chargebacks May Reduce Revenues in Future Fiscal Periods

Merus establishes estimates of the impact that these policies may have in subsequent periods. Merus cannot ensure that the reserves are adequate or that actual product returns, allowances and chargebacks will not exceed the estimates, which could have a material adverse effect on the results of operations, financial condition, cash flows and the market price of Merus securities.

Merus may be subject to the risks of foreign exchange rate fluctuation.

Merus will be exposed to fluctuations of the Canadian dollar against certain other currencies because it publishes its financial statements in Canadian dollars, while a minor portion of its assets, liabilities, revenues and costs are or will be denominated in other currencies, such as the euro and the U.S. dollar. Exchange rates for currencies of the countries in which Merus operates may fluctuate in relation to the Canadian dollar, and such fluctuations, especially as between the Canadian dollar and the euro, may have a material adverse effect on its earnings or assets when translating foreign currency into Canadian dollars. In order to mitigate the risk, Merus uses forward contracts and other derivative instruments to reduce its exposure to foreign currency risk. Dependent on the nature, amount and timing of foreign currency receipts and payments, Merus may from time to time enter into foreign currency contracts. Accordingly, Merus may experience economic loss and a negative impact on earnings solely as a result of foreign exchange rate fluctuations, which include foreign currency devaluations against the Canadian dollar. Merus does not typically carry currency convertibility risk insurance.

Market rate fluctuations could adversely affect Merus results of operations.

Merus will be subject to market risk through the risk of loss of value in Merus portfolios resulting from changes in interest rates, foreign exchange rates, credit spreads, and equity prices. Merus will be required to mark to market its held-for-trading investments at the end of each reporting period. This process could result in significant write-downs of Merus investments over one or more reporting periods, particularly during periods of overall market instability, which would have a significant unfavourable effect on Merus financial position.

Merus may be unsuccessful in evaluating material risks involved in completed and future investments.

Merus will regularly review investment opportunities and as part of the review, conduct business, legal and financial due diligence with the goal of identifying and evaluating material risks involved in any particular transaction. Despite Merus efforts, it may be unsuccessful in ascertaining or evaluating all such risks. As a result, it might not realize the intended advantages of any given investment and may not identify all of the risks relating to the investment. If Merus fails to realize the expected benefits from one or more investments, or does not identify all of the risks associated with a particular investment, Merus business, results of operations and financial condition could be adversely affected.

Merus may be subject to certain regulations that could restrict Merus activities.

From time to time, governments, government agencies and industry self- regulatory bodies in Canada, the United States, the European Union and other countries in which Merus will operate have adopted statutes, regulations and rulings that directly or indirectly affect the activities of Merus and its future clients.

Risks Relating to Merus Common Shares

A decline in the price of the Common Shares could affect its ability to raise further working capital and adversely impact its ability to continue operations.

A prolonged decline in the price of the Common Shares could result in a reduction in the liquidity of its Common Stock and a reduction in its ability to raise capital. Because a significant portion of Merus operations have been and will be financed through the sale of equity securities, a decline in the price of its Common Shares could be especially detrimental to Merus liquidity and its operations. Such reductions may force Merus to reallocate funds from other planned uses and may have a significant negative effect on Merus business plan and operations, including its ability to develop new products and continue its current operations. If Merus stock price declines, it can offer no assurance that Merus will be able to raise additional capital or generate funds from operations sufficient to meet its obligations. If Merus is unable to raise sufficient capital in the future, Merus may not be able to have the resources to continue its normal operations.

Because it is unlikely that Merus will pay dividends in the foreseeable future, stockholders may only benefit from owning Common Shares if the value of the Common Shares appreciates.

Merus has never paid dividends on its Common Shares and it does not intend to do so in the foreseeable future. Merus intends to retain any future earnings to finance its growth. Accordingly, any potential investor who anticipates the need for current dividends from his or her investment should not purchase Common Shares.

Because Merus is a Canadian company, it may be difficult to enforce liabilities against the Company based solely upon the federal securities laws of the United States.

The Company is governed by the laws of British Columbia and its principal executive offices are located in Toronto, Ontario and Vancouver, British Columbia. Many of its directors, controlling persons and officers are residents of Canada and a substantial portion of their assets and a majority of Merus assets are located outside the United States. Consequently, it may be difficult to enforce against Merus or any of its directors, controlling persons, or officers, liabilities based solely upon the federal securities laws of the United States.

The Company believes that it was a Passive Foreign Investment Company, which may have adverse tax consequences for the Company s shareholders in the United States.

Under U.S. federal income tax laws, Merus believes that Envoy was a passive foreign investment company (PFIC) for the year ending September 30, 2011, and that it has been a PFIC in prior years, which may have adverse tax consequences for Merus shareholders in the United States. U.S. shareholders are urged to read the section titled Certain United States Federal Income Tax Considerations in Item 10 of this Form 20-F and to consult their tax advisors concerning the U.S. federal income tax consequences of holding the common shares of a PFIC.

Item 4: Information on the Company

A. History and Development of the Company

Name

The Company s legal and commercial name is Merus Labs International Inc.

Principal Office

The principal place of business of Merus is 30 St. Patrick St., Ste. 301, Toronto, Canada M5T 3A3. Merus may be reached by telephone at (416) 593-3725 or facsimile at (416) 593 4434. Merus registered office is located at 800-885 West Georgia Street, Vancouver, BC V6C 3H1; its head office is located at Suite 2007. 1177 West Hastings Street, Vancouver, BC V6E 2K3; and its telephone number is 604-805-7783. Merus website is www.meruslabs.com. Information contained on Merus website does not constitute a part of this Form 20-F.

Corporate Information

Envoy was incorporated under the laws of the Province of British Columbia, Canada as Potential Mines Ltd. in December 1973 and was continued under the laws of the Province of Ontario, Canada in December 1997. At the Company s annual general meeting held on March 30, 2007 the shareholders voted to amend the corporation s articles of incorporation by changing its name to Envoy Capital Group Inc.

Old Merus was incorporated under the laws of the Province of British Columbia on November 2, 2009 as a numbered company, 0865346 B.C. Ltd. On January 22, 2010, Old Merus changed its name to Merus Labs International Inc. in connection with a plan of arrangement with Range Gold Corp.

On December 19, 2011, pursuant to a plan of arrangement filed with the British Columbia Corporate Registry, Old Merus and Envoy amalgamated to form Merus.

The common shares in the capital of Merus (the **Common Shares**) are publicly traded on the Toronto Stock Exchange (**TSX**) under the symbol MSL and on NASDAQ under the symbol MSLI .

Important Events

Envoy s business was to provide marketing, communications and consumer and retail branding services for promoting clients products, services and business messages utilizing such media as print, broadcast and the Internet. During the year ended September 30, 2011, Envoy conducted its business through two reportable operating segments: the Consumer and Retail Branding Group and the Merchant Banking Group. In addition, Envoy had a Corporate Group which provides certain administrative, accounting, financial, regulatory reporting and legal functions. During 2011, Envoy made a decision to divest of its Consumer and Retail Branding Group through the sale of its wholly-owned subsidiary, Watt International Inc. (Watt). On September 30, 2011, Envoy announced that it had completed the

divestiture of Watt. The sale of Watt represented an important step in management s ongoing plan to restructure the business through divestiture of all non-merchant banking assets. The sale was arm s length and gross proceeds were $2,150,000. Effective upon the Amalgamation, Envoy ceased its line of business and the business of Old Merus will be the business of Merus going forward.

Merus is focused on the acquisition and licensing of prescription pharmaceutical products in the mature stage of the product life cycle. Legacy products are those products that are no longer promoted, most likely generecised (i.e. the trademark has becomes generic), considered time-trusted medicines with known risk profiles and are at the steady state cash flow stage of their life cycle.

On June 23, 2010, Merus Labs entered into a binding letter of intent with Methapharm for the licensing, registration, and distribution of specific pharmaceutical products and medical devices in Canada, on an exclusive basis.

On July 5, 2010, Merus Labs entered into a formal agreement with Methapharm for the licensing, registration, and distribution of specific pharmaceutical products and medical devices in Canada, on an exclusive basis. The deal includes a portfolio of advanced wound care products including Hydrogel, ulcer wound, and composite multi-layered dressings, as well as, anti-microbial silver Hydrogel dressings. The portfolio also includes anti-fungal creams.

On September 17, 2010, Merus Labs entered into a definitive agreement with Innocoll Pharmaceuticals Limited (**Innocoll**) to license in, on an exclusive basis, 3 advanced wound care products for the Canadian market. Furthermore, Innocoll agrees to grant to Merus Labs a right of first refusal for all current pipeline advanced wound care products for the Canadian Market.

On May 13, 2011, Merus Labs acquired all right, title and interest in and to the pharmaceutical product Vancocin® (vancomycin hydrochloride) capsules (**Vancocin®**), including the right to manufacture, market and sell Vancocin® in Canada, from Iroko. Merus Lab acquired Vancocin® for total consideration in line with an acquisition of a pharmaceutical brand, which is typically divested at a price ranging from a multiple of 2.5 to 3.5 times the net annual sales of the product.

Vancocin® capsules are indicated for the treatment of:

- Enterocolitis caused by Staphylococcus aureus (including methicillin-resistant strains); and
- Antibiotic-associated pseudomembranous colitis caused by Clostridium difficile.

On May 26, 2011, Old Merus announced that Health Canada has approved its advanced wound care product Collacare®.

On July 5, 2011, Old Merus announced it has entered into a support services agreement (the **Methapharm Agreement**) with Methapharm. Under the terms of the Methapharm Agreement, Methapharm has agreed to provide Old Merus with $500,000 in working capital in consideration for:

(i) being appointed the exclusive provider of certain distribution services of Merus products in Canada; and

(ii) payment of certain fees based on net sales of Merus products, and service fees in line with market rates customary to such services.

The Methapharm Agreement is for a term of five years with automatic renewal terms of two years until terminated.

On March 7, 2012, Merus announced that it has completed the acquisition of the North American product rights for FACTIVE® (Gemifloxacin Mesylate) tablets from Cornerstone Therapeutics Inc. ("Cornerstone"). Cornerstone recorded FACTIVE® 320mg tablet net sales of approximately US$6.3 million in the United States for 2011. Factive has not been commercialized in Canada. Merus acquired FACTIVE® for total consideration, as a multiple of product cash flow, fully paid at closing. Pursuant to the acquisition, Merus acquired the license to the FACTIVE® trademark and patent, inventory on hand, and certain related intellectual property and other information and materials required to continue marketing the brand in the North American market. Merus has also entered into a sales and promotion agreement for FACTIVE® with Vansen Pharma Inc. ("Vansen") to market the product in the United States.

B. Business Overview

Merus is a specialty pharmaceutical company that acquires prescription medicines in the following categories:

- On patent but at maturity stage of product life cycle;
- Branded generics;
- Under promoted products;
- Niche market pharmaceuticals; and
- Products with annual sales below critical threshold for large pharma.

Once a product is acquired, our experienced team implements a focused sales and marketing plan to promote the product with the goal of increasing sales and market share.

Merus' corporate growth strategy is driven by a product acquisition plan which employs an opportunistic approach to source product acquisition candidates. This approach allows Merus to source pharmaceutical products across broad therapeutic classes which provides access to acquisition targets not available to other players and creates a diversified strategy. Although Merus has a broad therapeutic focus, opportunities will be pursued if the application of a dedicated small scale sales force can deliver incremental product sales growth. The geographic focus will be the United States and Canada.

The Merus corporate strategy results in a diversified product portfolio approach. To manage such a product portfolio, a low cost operating model has been implemented in which there is a light infrastructure footprint. Merus has partnered with third party contract manufacturing and regulatory service providers to leverage their expertise but still maintain maximum flexibility for Merus.

Superior Business Model for Acquisition of Diversified Legacy Products

Merus believes that its strategy in seeking to acquire legacy products primarily for the purpose of generating a stream of stable revenues and cash flow will provide Merus with the flexibility to consider a broad range of acquisition targets from a variety of therapeutic areas. Therefore, the potential number of product acquisition candidates may be much larger for Merus than for its competitors. Management believes that Merus approach to product acquisition and its return objectives provide Merus with a competitive advantage in acquiring products as it can often purchase diversified bundles of products from a single vendor. In contrast, Merus competitors, such as niche pharmaceutical companies, are more likely to focus on individual product acquisition within the same therapeutic area. As a result, certain vendors may view Merus as a preferred purchasing candidate.

Predictable Cost Structure

Merus plans to establish a predictable cost structure by relying on a small employee base and outsourcing more of the operational functions associated with its business, including warehousing, distribution, customer service, invoicing, collections, regulatory affairs, medical and drug information, human resources and informational technology. Wherever possible, Merus seeks to achieve cost controls by entering into contractual supply and/or service agreements that dictate fixed or percentage fixed costs with annual adjustments for inflation. In the case of its manufacturing supply agreements, Merus cost of goods will be based on a fixed, per unit cost with annual inflationary adjustments. Management believes the predictability, flexibility and efficiency gained by contracting with established, experienced service organizations will assist Merus in maintaining its margins and maximizing distributable cash.

Partnership with Leading Service Providers

Related to the above, Merus plans to enter into outsourcing relationships with leading providers of pharmaceutical contract services for many of the operational functions associated with its business and intends to pursue this strategy in the future.

Competitors of Merus

Competitors in the pharmaceutical market range from large multinational pharmaceutical development corporations to small, single product companies that may limit their activities to a particular therapeutic area or region or territory. Competition also comes from generic companies, which develop and commercialize formulations that are identical to marketed brands. Merus expects to compete with a variety of drug companies.

With respect to its acquisition strategy, Merus expects to compete principally with other pharmaceutical companies who seek to acquire mature pharmaceutical products as part of their growth strategy. These companies, however, typically focus on under-promoted products in specific therapeutic niches that offer growth potential through synergistic sales and marketing efforts. To Merus knowledge, few, if any, companies are currently seeking to acquire legacy products solely for the purpose of generating a stream of consistent cash flow.

In addition, since Merus is not focused on specific therapeutic classes, it will have the ability to purchase diversified products and product bundles.

On November 3, 2011, Optimer Pharmaceuticals, Inc. (**Optimer**) announced that Health Canada awarded Optimer priority review for its product: DIFICID®. DIFICID® is another method for the treatment of Clostridium difficile infection. Optimer asserts that DIFICID® has a slightly lower recurrence rate than Vancocin®. The recent Infectious Diseases Society of America guidelines (the **IDSA Guidelines**) indicate that a tapered and pulsed regimen with Vancocin® is effective in reducing recurrence. The IDSA Guidelines also recommend that Vancocin® be used as a first-line therapy in the treatment of Clostridium difficile. If Optimer is able to demonstrate that DIFICID® is preferable to Vancocin®, the business of Merus could be adversely affected.

Anti-infective Franchise

The global market for anti-infective drugs, which mainly includes antibacterials, antivirals, antifungals, and vaccines, is projected to exceed $103 billion by the year 2015, according to a newly published report. Antibacterials represent the largest segment of the anti-infectives market globally. The global anti-infective market is forecast to expand at a compound annual growth rate of 5.7% between 2008 and 2013.

The ten leading companies in the anti-infectives market accounted for 53.8% (or $37.3 billion) of total revenues in 2007. The competitive landscape remains highly fragmented, with market leaders Merck and GSK controlling a combined market share of only 21.4% . Antibacterials accrued sales of $36.3 billion in 2007, accounting for 52.3% of total anti-infective market revenues.

Vancocin

In May 2011, Old Merus acquired Vancocin (vancomycin hydrochloride) capsules from Iroko International LP. a subsidiary of Iroko Pharmaceuticals, LLC. According to IMS Canada, Vancocin® 125mg and 250mg capsules had combined total sales of approximately $7.8 million in 2010. Vancomycin was first isolated by Eli Lilly. The original indication for vancomycin was for the treatment of penicillin-resistant staphylococcus aureus. One advantage that was quickly apparent is that staphylococci did not develop significant resistance despite serial passage in culture media containing vancomycin. The rapid development of penicillin resistance by staphylococci led to the compounds being fast-tracked for approval by the US Food and Drug Administration (FDA). Eli Lilly first marketed vancomycin hydrochloride under the trade name Vancocin. Vancocin is a powerful antibiotic used to treat a life-threatening disease resulting from the infection of Clostridium Difficile (C. Difficile).

C. Difficile is on the increase with higher mortality and severity. Due to the nature of the disease, intravenous (systemic) solutions are regarded as ineffective. To be effective against C. Difficile, drugs must act locally on the flora of the gastro intestinal track. Intravenous solutions by definition do not act locally. Recent Clinical Practice Guidelines (Clinical Practice Guidelines for Clostridium difficile Infection in Adults: 2010 Update by the Society for Healthcare Epidemiology of America (SHEA) and the Infectious Diseases Society of America (IDSA)) state that oral Vancocin should be used as first line therapy in severe cases of C. Difficile. The guidelines state that vancomycin is the drug of choice for an initial episode of severe C. Difficile. The dosage is 125 mg orally four times per day for 10 14 days. Vancomycin administered orally (and per rectum, if ileus is present) is the regimen of choice for the treatment of severe, complicated C. Difficile.

Barriers to Entry

There are a number of important barriers to entry with regards to Vancocin, which includes the following.

Quality of Vancomycin HCI Non-Sterile, USP

Vancomycin HCI Non-Sterile, USP (API) is a result of a complex fermentation process, which requires significant know-how and experience. The source of API is a critical factor. As well, the impurity profile of the API has a direct impact on efficacy. *In vitro* antibacterial effects, protein binding and pharmacokinetic properties were similar between the generic vancomycin preparations and VAN-Lilly (or Vancocin). However, in a staphylococcus aureus neutropenic mouse thigh infection model, the antibacterial activity of the generic vancomycin preparations marketed between 2002 and November 2004, when Eli Lilly sold its brand name and production secrets to several manufacturers worldwide, proved to be significantly inferior to that of VAN-Lilly (or Vancocin). One generic could not even achieve bacteriostasis, and others showed a pronounced Eagle effect, with paradoxical bacterial growth at high antibiotic concentrations; VAN-Lilly (or Vancocin) exhibited bactericidal activity over a broad concentration range. What they came to learn is that vancomycin, specifically factor B, is really the active product, and Eli Lilly was the one that originally had 92% purity in their production line, with less than 4% of impurities, specifically crystalline degradation products. It turns out that many of the generics vancomycin, especially less expensive ones, have higher rates of impurities and lower amounts of factor B.

Changes to Barriers to Entry

Although there are a number of barriers to entry, during the quarter, 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. Merus intends to vigorously pursue all avenues at its disposal to challenge the entry of any PPC product. Should PPC, or any other entity, enter the market with a generic product, this could have a material adverse effect on the business of Merus. Further, should Health Canada change its methodology by which NOCs are granted, particularly in connection with generic drugs, this could also have a material adverse effect on the business of Merus.

Also, the future of Vancocin may be affected by new therapies such as Fidaxomicin, a macrocyclic antibiotic, which may replace the use of Vancocin. Fidaxomicin was found to be non-inferior to vancomycin against C. Difficile in a phase III non-inferiority study reported in the February 3, 2011 issue of the New England Journal of Medicine. However, Fidaxomicin currently sells at approximately ten times the price of Oral Vancocin.

Factive

FACTIVE® is a fluoroquinolone antibiotic with the API gemifloxacin mesylate. FACTIVE® is currently available in 320 mg, once daily tablets packaged in five-day and seven-day dose packs. FACTIVE® is approved for the treatment of acute bacterial exacerbation of chronic bronchitis, or ABECB, and community-acquired pneumonia, or CAP, of mild to moderate severity, caused by Streptococcus pneumoniae (including MDRSP), Haemophilus influenzae, Moraxella catarrhalis, Mycoplasma pneumoniae, Chlamydia pneumoniae, or Klebsiella pneumoniae. FACTIVE was launched in the United States in September 2004 and is the only fluoroquinolone approved in the United States for the five-day treatment of both ABECB and CAP.

We believe FACTIVE® is well positioned to meet the needs of health care providers for the treatment of ABECB and CAP. FACTIVE® has demonstrated high clinical cure rates in multiple prospective, randomized clinical trials, rates that seem to resonate well with prescribers. FACTIVE® is the only fluoroquinolone that has an indication for five-day treatment for both CAP and ABECB.

FACTIVE® targets the infection site with high lung tissue penetration. In a clinical study, FACTIVE® produced a concentration in bronchoalveolar tissue which is 3,567 times the MIC90 requirement to eradicate Streptococcus pneumoniae in critical lung tissue, cells and fluids (bronchoalveolar macrophages, epithelial lining fluid and bronchial mucosa). In another clinical study of 310 patients with CAP, five-day treatment with FACTIVE® produced a 100% eradication of Streptococcus pneumoniae, 95.5% eradication of Haemophilus influenzae, 94.4% eradication of Chlamydia pneumoniae and 88.8% eradication of Mycoplasma pneumoniae. In a study of five-day treatment for ABECB, FACTIVE® demonstrated clinical success rate was 94% (247 of 264 patients). In a separate study, five-day treatment with FACTIVE for CAP produced a clinical success rate of 95% (230 of 242 patients). These findings are in line with longer treatment regimens of other fluoroquinolone antibiotics.

Wound Care Franchise

In September 2010, Merus entered into a definitive agreement with Innocoll Pharmaceuticals Limited (Innocoll) to license in, on an exclusive basis, three advanced wound care products for the Canadian market.

The worldwide advanced wound care market is estimated to be approximately $5.5 billion in 2010. This market is expected to grow by approximately 5.7% to 6% to 2013. There is a tremendous amount of innovation in this market place. Most of the Company s product offerings in this segment will be medical devices. The regulatory pathway for medical devices is much less complex and less expensive, leading to much shorter time to revenues and commercialization. Given the Company s reach with major hospitals in Canada, wound care is a natural fit with its hospital specialty business.

As of the date of this Annual Report, the Company has not launched any of its wound care products. The Company s entrance into this market is focused on advanced woundcare devices. These are devices that are implantable and contain collagen as the active ingredient. Collagen has a long history of safe medical use and is a biodegradable substance. It has several other positive attributes that make it an excellent biomaterial; these include its positive influence on wound healing, its intrinsically low antigenicity and ability to be sterilized.

With the Company s current portfolio of Collacare and Collexa, the Company may compete in the following markets:

- Diabetic foot, chronic leg, and pressure ulcers;
- Moderate and severe burns; and
- Dehisced surgical wounds.

Collacare

Collacare is an advanced wound care device comprising a white to off-white collagen matrix containing 2.8 mg/cm2 of renatured bovine collagen. Collacare is used in the management of wounds and is highly conformable for a variety of anatomical sites.

Collexa

Collexa is an advanced bilayer wound care device comprising a layer of white collagen matrix containing 2.8 mg/cm2 of renatured bovine collagen with a backing layer of off-white/cream absorbent polyurethane foam. The collagen matrix layer aids in the wound management while the polyurethane foam layer acts as a reservoir absorbing wound fluids. Collexa can absorb greater than ten times its own weight in wound fluids. Collexa is highly conformable for a variety of anatomical sites.

Collexa may be used for the management of wounds including:

- Diabetic, Venous, Pressure ulcers;
- Full thickness and partial thickness wounds;
- Traumatic, exuding, and dehisced surgical wounds;
- Abrasions; and
- 1st and 2nd degree burns.

On September 12, 2011, Health Canada approved Collexa for sale in Canada.

Customers

Management expects that Merus will generally sell between 80% and 90% of its products directly to three major wholesalers in Canada and United States: AmerisourceBergen, McKesson Corporation and Matrix, which does business as Shoppers Drug Mart. Management believes that it is common practice in Canada and the United States for pharmacies to have multiple wholesale sources. Other direct buyers include additional smaller wholesalers and distributors, in addition to certain pharmacy chains and food stores that warehouse the products internally. Additional key customer groups include the following:

- Physicians and allied health professionals including nurses, physician assistants and pharmacists: While physicians and allied health professionals are not themselves direct buyers of Merus products, they are the key decision-makers in terms of recommending or prescribing Merus products to patients. These healthcare providers make prescribing decisions based on personal experience, influence of peers, medical/educational meetings/events, medical journals, and information obtained through various pharmaceutical-sponsored educational and promotional programs and sales representatives.

- Patients and their families/caregivers: In the United States, patients have to bear a greater share of the cost of healthcare. Therefore, the industry has increasingly turned to promotional and educational initiatives that directly target patients and their families. Merus will generally not engage in activities that directly target patients, except for the provision of various product and disease-specific patient education materials that may be passed along to patients by physicians.

- Third-party payors such as managed care organizations and group purchasing organizations: Third party payors, like certain insurance companies and employers, make purchasing and reimbursement decisions based on a number of health outcomes and economic variables. Merus will not attempt to influence the historical level of reimbursement for its products.

- State and federal government health agencies: Certain federal government agencies like the Department of Veteran Affairs, the Department of Defence, prison systems and Indian Health Services may purchase pharmaceutical products directly from Merus or provide third-party reimbursement to those that do purchase Merus products. In addition, Medicaid programs at the individual state level may also reimburse patients in the purchase of Merus products. The historical utilization/reimbursement activity of Merus products for these government agencies has been low and Merus anticipates this to continue. However, the 2006 adoption of Part D prescription drug coverage for patients aged 65 and over may expand the potential market for certain legacy products.

C. Organizational Structure

As of March 28, 2012, Merus has four subsidiaries:

D. Property, Plants and Equipment

Merus currently has offices in Toronto, Canada and Vancouver, Canada. The terms of our leases are as follows:

Merus executive offices consist of approximately 1,600 square feet located at 30 St. Patrick St., Ste. 301, Toronto, Ontario. These premises have been leased pursuant to a lease with a term that commenced on April 1, 2009 and expires in March 2014 at a current annual rent of $52,200. The Company has an option to terminate the lease on or after March 31, 2012, upon payment of a penalty in the amount of $1,000 for each month remaining on the lease at the time of cancellation.

Merus head office is located at Suite 2007. 1177 West Hastings Street, Vancouver, BC V6E 2K3; and its telephone number is 604-805-7783.

Item 4A: Unresolved Staff Comments

Not applicable.

Item 5: Operating and Financial Review and Prospects

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements of Envoy and the Notes relating thereto, included as item 17 in this Annual Report. The information contained in this Item 5 refers to Financial Statements of Envoy, which are presented in Canadian dollars and are prepared in accordance with Canadian GAAP.

Canadian GAAP differs in certain significant respects from U.S. GAAP. Reconciliation to U.S. GAAP is set forth in Note 19 of the Notes to Consolidated Financial Statements. Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future period.

Overview

The Company presented as net revenue its gains or losses on investments, as well as interest and dividend income. Securities transactions were recorded on a trade-date basis. Changes in fair value of held-for-trading investments were reflected in the consolidated statements of operations. Dividend income was recorded on the ex-dividend date. Interest income was recorded on an accrual basis.

Operating Expenses

Salaries and benefits, general and administrative expenses and occupancy costs represent the operating expenses. Salaries and benefits expenses include salaries, employee benefits, incentive compensation, contract labour and other payroll related costs, which were expensed as incurred. General and administrative costs included business development, office costs, technology, professional services and foreign exchange. Occupancy costs represented the costs of leasing and maintaining company premises.

Tax Matters

With respect to the its 2011 fiscal year, Envoy had tax loss carry forwards sufficient to cover its Canadian income tax liabilities and has approximately $18.8 million in loss carry forwards. Details on income taxes are set forth in Note 12 of the Notes to Consolidated Financial Statements.

A. Operating Results

Net revenue from continuing operations for the year ended September 30, 2011 was $1.9 million, compared to $1.1 million for the year ended September 30, 2010, an increase of $0.8 million. The increase was due primarily to improved market conditions during the first half of the fiscal year, along with a conscious effort to reduce market exposure during the latter half of the year.

Salaries expense for the year ended September 30, 2011 was $1.9 million, compared to $2.0 million in the year ended September 30, 2010, a decrease of $0.1 million. The labour to net revenue ratio for the year ended September 30, 2011 was 99.3%, compared to 175.4% in the year ended September 30, 2010. The improvement in the salary ratio was due to the restructuring of the executive management team in February 2011.

General and administrative expenses for the year ended September 30, 2011 were $0.6 million, compared to $0.9 million for the year ended September 30, 2010, a decrease of $0.3 million or 29.5% . The primary reason for the decrease was the closure of the Monaco office in fiscal 2011.

Occupancy costs were $0.1 million for the year ended September 30, 2011, and for the year ended September 30, 2010. The occupancy cost to net revenue ratio was 4.2% for the year ended September 30, 2011 compared to 10.2% for the year ended September 30, 2010, mainly due to the lower revenue base in the prior year.

The Consolidated Financial Statements have been prepared by management in accordance with generally accepted accounting principles in Canada, which vary in certain significant respects from generally accepted accounting principles in the United States. A description of the significant differences, as applicable to Envoy, is included in note 19 to the Consolidated Financial Statements.

SELECTED ANNUAL INFORMATION

	Fiscal 2011	Fiscal 2010	Fiscal 2009
Net revenue	**$1.9 million**	$1.1 million	$0.6 million
Net (loss) earnings:			
From continuing operations	**($6.8) million**	($4.3) million	($7.1) million
From discontinued operations	**($0.7) million**	$0.2 million	($3.3) million
Total	**($7.5) million**	($4.1) million	($10.4) million
Net (loss) earnings per share			
Total			
Basic	**($0.93)**	($0.50)	($1.22)
Diluted	**($0.93)**	($0.50)	($1.22)
From continuing operations			
Basic	**($0.85)**	($0.52)	($0.84)
Diluted	**($0.85)**	($0.52)	($0.84)
From discontinued operations			
Basic	**($0.08)**	$0.02	($0.39)
Diluted	**($0.08)**	$0.02	($0.39)

As at:	**Sep 30, 2011**	Sep 30, 2010	Sep 30, 2009
Total assets	**$11.0 million**	$19.6 million	$23.6 million
Total long-term financial liabilities	**$nil**	$nil	$nil
Cash dividends declared	**$nil**	$nil	$nil

FISCAL YEAR ENDED SEPTEMBER 30, 2011, COMPARED TO FISCAL YEAR ENDED SEPTEMBER 30, 2010

On a consolidated basis, the net loss for the year ended September 30, 2011 was $7.5 million compared to a net loss of $4.1 million for the year ended September 30, 2010. On a fully diluted per share basis the net loss for fiscal year 2011 was ($0.93) per share compared to ($0.50) in fiscal 2010.

Excluding discontinued operations and restructuring costs, the net loss for the year ended September 30, 2011 was ($0.7) million, compared to a net loss of ($1.9) million for the year ended September 30, 2010.

Merchant Banking Operations

Investment income from merchant banking activities includes realized and unrealized gains and losses from Envoy s investments plus interest and dividend income earned during the period.

The Merchant Banking segment generated net investment gains of approximately $1.9 million for the year ended September 30, 2011, compared to net investment gains of $1.1 million for the year ended September 30, 2010.

For the first five months of the fiscal year, Envoy operated much as it did for fiscal 2010, with most of its capital invested in a broad range of equities, with capital allocations in both quantitative and qualitative portfolios, as well as strategic derivatives designed to augment returns. The portfolio did relatively well during this period, earning the majority of the returns for the year. In February 2011, Envoy experienced a change in management which coincided with a change in the investment market in general. As volatility increased, equities suffered, erasing some of the gains. As a way of diversifying the investments, in May 2011, Envoy advanced $1.9 million by way of a short-term loan, and made an equity investment of a similar amount in a private entity. For the latter portion of the fiscal year, equity returns were relatively flat, despite the continued volatility.

For the year ended September 30, 2011 Envoy recognized gains attributable to the sale of marketable securities or adjustments to market value of $1.4 million. For the same period last year, Envoy recognized gains of $1.1 million. However, interest and dividend income for the fiscal year 2011 was $0.5 million, compared to less than $0.1 million last year. Interest income in the current fiscal year was almost entierly due to the loan to Merus Labs, which generated cash interest of almost $0.1 million as well as $0.4 million from accretion of loan fees received in the form of shares and warrants. In 2010, most of the portfolio capital was invested in equities as opposed to holding cash.

For the year ended September 30, 2011, Envoy generated a return of 11.1% compared to last year when Envoy generated a return of 5.4% on its invested capital. In comparison to other widely-used benchmarks Envoy outperformed for the year, as the Dow Jones Industrial Average gained just 1.2% over Envoy s fiscal year, while the S&P 500 and TSX indexes had losses of (0.9%) and (6.0%), respectively.

Operating expenses were comprised mainly of salaries and benefits. Total operating expenses for the year ended September 30, 2011 were approximately $2.6 million, compared to $3.0 million for the same period last year. Of the current year amount, $0.9 million relates to stock based compensation granted to the new management team in July 2011. Salaries and benefits expenses, which make up the bulk of the operating costs, were reduced significantly in the current year as a result of the executive restructuring undertaken by Envoy in February 2011.

Income Taxes

Income tax expense for the year was nil. Envoy has existing tax loss carryfowards which it has not capitalized as there can be no assurance that value of such will be realized in future periods. Envoy increased its valuation allowance to reflect future tax assets as nil.

Discontinued Operations

Discontinued operations represent the results of Watt, which was owned by Envoy throughout the fiscal year. In connection with the change in management in February 2011, the decision was made to divest of Envoy s Consumer and Retail Branding division. Envoy recognized a loss from discontinued operations of ($0.3) million, or ($0.03) per share, for the year ended September 30, 2011, compared to income from discontinued operations of $0.2 million, or $0.02 per share for the prior year. Envoy also recognized a loss on disposal of discontinued operations in the current year of ($0.4) million, or ($0.05) per share.

Net loss

Net loss from continuing operations for the year ended September 30, 2011 was ($6.8) million, compared to a loss of ($4.3) million for the year ended September 30, 2010. On a per share basis the net loss from continuing operations in the current year was ($0.85) per share compared to ($0.52) last year.

The earnings per share calculations are based on basic and fully diluted weighted average shares outstanding of 8,028,377 for both the current and prior year.

THREE MONTHS ENDED SEPTEMBER 30, 2011, COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2010

On a consolidated basis, the net loss for the fourth quarter of fiscal 2011 was ($1.8) million, compared to net income of $0.4 million for the fourth quarter of fiscal 2010. Excluding discontinued operations, the net loss for the fourth quarter of fiscal 2011 was ($1.6) million, compared to net income of $0.3 million for the same period last year.

Merchant Banking Operations

For the fourth quarter ended September 30, 2011 the merchant banking segment experienced net investment losses of ($0.4) million, compared to investment gains of $0.9 million in the same period last year. As financial markets deteriorated considerably in the fourth quarter of fiscal 2011, Envoy worked to minimize losses on its invested assets and protect capital. Considerably less capital was invested in equities during the fourth quarter of fiscal 2011 as compared to fiscal 2010, as Envoy looked to employ capital in other investment vehicles.

Operating expenses for the Merchant Banking business were comprised largely of salaries and benefits. Total operating expenses for the fourth quarter of fiscal 2011 were approximately $1.2 million, compared to $0.6 million for the same period last year. Included in the current quarter is an non-cash expense of approximately $0.9 million relating to stock options issued to Envoy s directors.

Income Taxes

The income tax expense for the period was nil. The reason for the disparity from the substantively enacted tax rate of 28.5% was an adjustment to the value of the future tax asset in order to reflect a nil value. The current value of the future tax asset reflects management s assessment of those timing differences and loss carryforwards which are more likely than not to be used in future periods.

Net loss

Net loss from continuing operations for the three months ended September 30, 2011 was ($1.6) million, compared to net income of $0.4 million for the three months ended September 30, 2010. On a basic and fully diluted per share basis the net loss from continuing operations in the current quarter was ($0.20) per share compared to net income from continuing operations of $0.04 in the same quarter last year. The earnings per share calculations are based on basic and fully diluted weighted average shares outstanding of 8,028,377 for the both the current and prior year periods.

3. SUMMARY OF QUARTERLY RESULTS

	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Net revenue	($0.39) million	$0.36 million	$0.34 million	$1.57 million
Net earnings (loss):				
From continuing operations	($1.55) million	$0.07 million	($6.27) million	$0.96 million
Including discontinued operations	($1.76) million	($0.00) million	($6.43) million	$0.72 million
Net earnings (loss) per share:				
From continuing operations:				
Basic	($0.20)	$0.01	($0.77)	$0.11
Diluted	($0.20)	$0.01	($0.77)	$0.11
Including discontinued operations:				
Basic	($0.22)	($0.00)	($0.80)	$0.09
Diluted	($0.22)	($0.00)	($0.80)	$0.09

	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Net revenue	$0.89 million	($1.19) million	$1.48 million	($0.07) million
Net earnings (loss):				
From continuing operations	$0.32 million	($1.75) million	$0.68 million	($3.58) million
Including discontinued operations	$0.43 million	($1.44) million	$0.89 million	($4.02) million
Net earnings (loss) per share:				
From continuing operations:				
Basic	$0.04	($0.22)	$0.13	($0.42)
Diluted	$0.04	($0.22)	$0.13	($0.42)
Including discontinued operations:				
Basic	$0.05	($0.18)	$0.15	($0.47)
Diluted	$0.05	($0.18)	$0.15	($0.47)

RECONCILIATION TO U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Summary of material adjustments to net loss for the years ended September 30, 2011, 2010 and 2009 required to conform to US GAAP. Detailed information can be found in note 19 to the Financial Statements.

		2011		2010		2009
Net loss and comprehensive loss based on Canadian GAAP	**$**	**(7,467,048)**	$	(4,142,492)	$	(10,475,810)
Fair value adjustment on restricted securities		**(51,239)**		(137,465)		(283,411)
Net loss and comprehensive loss based on US GAAP	**$**	**(7,518,287)**	$	(4,279,957)	$	(10,759,221)

		2011		2010		2009
Net loss from continuing operations	**$**	**(6,838,847)**	$	(4,469,722)	$	(7,431,784)
Net (loss) earnings from discontinued operations	**$**	**(679,440)**	$	189,765	$	(3,327,437)

The following table sets forth the computation of basic and diluted net loss per share:

		2011		2010		2009
Net loss per share:						
Basic	**$**	**(0.93)**	$	(0.52)	$	(1.26)
Diluted		**(0.93)**		(0.52)		(1.26)
Net loss per share from continuing operations:						
Basic	**$**	**(0.85)**	$	(0.54)	$	(0.87)
Diluted		**(0.85)**		(0.54)		(0.87)
Net (loss) earnings per share from discontinued operations:						
Basic	**$**	**(0.08)**	$	0.02	$	(0.39)
Diluted		**(0.08)**		0.02		(0.39)

The calculation of diluted (loss) earnings per share used income from continuing operations as the control number in determining whether potential common shares are dilutive or antidilutive. Since Envoy experienced a loss in fiscal 2011, 2010 and 2009 from continuing operations, all potential common shares outstanding from dilutive securities are considered antidilutive and are excluded from the calculation of diluted loss per share for that year.

The following adjustments are required in order to conform total assets based on Canadian GAAP to total assets based on US GAAP:

		2011		2010
Total assets based on Canadian GAAP	**$**	**11,018,851**	$	19,569,533
Fair value adjustment on restricted securities		**-**		51,239
Total assets based on US GAAP	**$**	**11,018,851**	$	19,620,792

The following adjustments are required in order to conform shareholders equity based on Canadian GAAP to shareholders equity based on US GAAP:

		2011		2010
Shareholders equity based on Canadian GAAP	**$**	**10,332,512**	$	16,861,384
Fair value adjustment on restricted securities		**-**		51,239
Total Envoy shareholders equity based on US GAAP		**10,332,512**		16,912,623
Non-controlling interest		**-**		7,242
Total equity based on US GAAP	**$**	**10,332,512**	$	16,919,865

LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2011, Envoy had working capital of $9.2 million, compared to September 30, 2010, when it had a working capital of $15.5 million. Included in working capital is an investment portfolio of marketable securities, the current portion of which was $3.1 million at September 30, 2011 and $6.7 million at September 30, 2010. The principal reasons for the decrease was an effort during the middle part of the year to become more diversified as the market showed continued signs of volatility.

Approximately $2.5 million in cash was used by operations during the year ended September 30, 2011, compared to $5.5 million used by operations for the year ended September 30, 2010. The main uses of cash during both the current year and prior year was the funding of operating losses, including significant restructuring costs. Funds for these purposes were generated through liquidation of investments.

In prior years, Envoy has used significant working capital to repurchase shares of Envoy pursuant to the normal course issuer bid. In fiscal 2010, Envoy used approximately $0.6 million of cash for this purpose. No purchases were made under the issuer bid in fiscal 2011.

Envoy paid down and then cancelled its operating line of credit in fiscal 2011 to reduce finance costs, as it was seen as unnecessary. The revolving credit facility was available up to a maximum of $1.0 million and secured by a pledge of $2.0 million of Envoy s investment portfolio. At September 30, 2010, borrowings under the credit facility were $780,000. Despite the current economic conditions, Envoy has access to significant liquid capital resources and is not exposed to any investments with distressed credit.

During 2011, Envoy advanced $1.9 million by way of a loan receivable. The loan term was six months and required monthly payments of approximately $123,000 plus interest at 12%. The investment in a debt instrument was viewed as a means of diversifying the portfolio while earning good interest returns. Monthly payments were received by Envoy and the loan was paid in full in October 2011.

TRANSACTIONS WITH RELATED PARTIES

In January, 2011 Envoy sold its approximate 21% interest in Sereno Capital Corporation (Sereno), a Capital Pool Company. Members of Envoy s management group were also officers and directors of Sereno and exercised significant influence. The investment in Sereno was accounted for using the equity method.

During fiscal 2009, Envoy paid $7,500 (2008 - $215,000) for legal services to a director of Envoy. In November 2008, this director became an employee of Envoy.

In November, 2008, Envoy established a new subsidiary in the principality of Monaco, Envoy Capital Group Monaco, S.A.M (Envoy Monaco). As part of the local requirements of incorporation, the two directors of Envoy Monaco, who are residents of Monaco, acquired a 0.1% share interest in Envoy Monaco (total of 0.2%) at a cost of 5,000 Euros each. The Monaco office was closed in 2011 the shares sold to the minority holders for $1.

These transactions were recorded at the exchange amount, being the amount agreed to by the related parties, as the transactions were considered to be in the ordinary course of business.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The significant accounting policies used by Envoy in preparing its Financial Statements are described in Note 2 to the Financial Statements and should be read to ensure a proper understanding and evaluation of the estimates and judgements made by management in preparing those Financial Statements. Envoy s Financial Statements are prepared in accordance with Canadian generally accepted accounting principles. Envoy also prepared a reconciliation to United States generally accepted accounting principles, which is included in Note 19 to the Financial Statements.

Inherent in the application of some of these policies is the judgment by management as to which of the various methods allowed under generally accepted accounting principles is the most appropriate to apply in the case of Envoy. As well, management must take appropriate estimates at the time the Financial Statements are prepared.

Although all of the policies identified in Note 2 to the Financial Statements are important in understanding the Financial Statements, the policies discussed below are considered by management to be central to understanding the Financial Statements, because of the higher level of measurement uncertainties involved in their application.

Goodwill

Goodwill represents the price paid for acquisitions in excess of the fair market value of net tangible and intangible assets acquired. Goodwill is carried at cost, less impairment losses if any.

Envoy uses a two-step impairment test on an annual basis, or when significant business changes have occurred that may have had an adverse impact on the fair value of the goodwill.

To determine whether impairment has occurred, the fair value of the reporting unit is compared to its carrying amounts, including goodwill. When the fair value is in excess of its carrying amount, the goodwill is not considered to be impaired, and the second step of the impairment test is not necessary.

When the carrying amount of the reporting unit as determined in the first step exceeds the fair value, then the fair value of the goodwill is determined in the same manner as followed on a business combination. An impairment loss is recognized when the carrying amount of the goodwill of a reporting unit exceeds its fair value. It is not reversed in the event that the fair value subsequently increases.

Future Income Taxes

Envoy accounts for future income taxes using the asset and liability method. Under this method, future income taxes are recognized at the enacted or substantively enacted tax rate expected to be applicable at the date of reversal for all significant temporary differences between the tax and accounting bases of assets and liabilities and for certain tax carryforward items. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the benefits from those future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the substantive enactment of the change.

Revenue Recognition Merchant banking segment

Securities transactions are recorded on a trade-date basis. Changes in fair value of held-for-trading investments are reflected in the consolidated statements of operations. Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis.

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and Envoy s designation of such instruments. The standards require that all financial assets be classified either as held-for-trading (HFT), available-for-sale (AFS), held-to-maturity (HTM), or loans and receivables. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as HTM, and AFS financial assets that do not have quoted market prices in an active market.

HFT financial assets are financial assets typically acquired for resale prior to maturity. They are measured at fair value at the balance sheet date. Interest and dividends earned, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in net revenue for the period.

HTM financial assets are those non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost.

AFS financial assets are those non-derivative financial assets that are designated as AFS, or that are not classified as loans and receivables, HTM investments or HFT. AFS financial assets are carried at fair value with unrealized gains and losses included in Other Comprehensive Income (OCI) until realized when the cumulative gain or loss is recognized in net income.

Loans and receivables are accounted for at amortized cost using the effective interest method. At each financial reporting period, Envoy 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, Envoy 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 designated as HFT or AFS are recorded at fair value based on objective evidence including recent arm s length transactions between knowledgeable, willing parties. Such evidence might include significant subsequent equity financing by an unrelated professional investor, discounted cash flow analysis, operational results, forecasts and other developments since acquisition.

Recent accounting pronouncements

Business combinations

In January 2009, the CICA published Section 1582, Business Combinations to replace Section 1581. The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities, and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. Acquisition-related costs are to be expensed. This standard becomes effective January 1, 2011, and early adoption is permitted. This new standard is expected to only have an impact on the financial statements for any future acquisitions that will be made in periods subsequent to the of date adoption.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA published Section 1601, Consolidated Financial Statements , and Section 1602, Non-controlling Interests replacing Section 1600. Section 1601 carries forward guidance from Section 1600 with the exception of non-controlling interests, which are addressed in a separate section. This standard requires Envoy to report non-controlling interests within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions. These standards become effective January 1, 2011, and early adoption is permitted. Envoy currently does not have any significant equity investment in other entities and therefore the application of this new standard is not expected to have any impact on the financial statements of Envoy.

International Financial Reporting Standards (IFRS)

The CICA incorporated IFRS into the CICA Handbook as a replacement for current Canadian Generally Accepted Accounting Principles for most publicly accountable enterprises effectively for fiscal years beginning on or after January 1, 2011. Envoy thus will apply IFRS beginning October 1, 2011. Envoy will require restatement for comparative purposes of amounts reported by Envoy for the year ending September 30, 2011 and accordingly Envoy will need to prepare an opening balance sheet, in accordance with IFRS, as at October 1, 2010. While Envoy has begun the adoption of IFRS for fiscal 2012, the quantitative impact of the transition to IFRS has been determined to be immaterial. Envoy completed a three-phase transition plan: initial diagnostic assessment and scoping, in-depth analysis and assessment, and implementation.

As at September 30, 2011, Envoy has substantially completed all three phases of its transition plan and have identified the areas of impact on Envoy s financial reports: accounts receivable and net revenue from the consumer and retail branding business, which are now reported as discontinued operations. Envoy has determined that the financial impact of the transition to IFRS will be minimal, however, Envoy anticipates a significant increase in disclosure requirements under IFRS and such requirements are also being evaluated along with the necessary system changes required to gather, process and review such disclosure. Envoy does not anticipate any significant changes to its information technology, internal controls over financial reporting, disclosure controls and procedures or its business activities as a result of the conversion to IFRS. Envoy will complete its transition plan during the first quarter of fiscal 2012.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2009, the FASB revised the authoritative guidance for revenue recognition for arrangements with multiple deliverables. The new guidance modifies the requirements for determining whether a deliverable can be treated as a separate unit of accounting by removing the criteria that verifiable and objective evidence of fair value exists for the undelivered elements. In allocating transaction consideration among the deliverables, the guidance also introduced the concept of using management's best estimate of a stand along selling price as an alternate basis for allocation. Envoy adopted this guidance in its first quarter of fiscal 2011. The adoption of these changes did not have a material impact on Envoy s consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Improving Disclosures about Fair Value Measurements (Topic 820) Fair Value Measurements and Disclosures (ASU 2010-06), to add additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3. This standard was effective for Envoy in the first quarter of fiscal 2011 and the adoption of these changes did not have a material impact on Envoy s consolidated financial statements.

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, Revenue Recognition Milestone Method (Topic 605) Revenue Recognition (ASU 2010-17). ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. It provides criteria for evaluating if the milestone is substantive and clarifies that a vendor can recognize consideration that is contingent upon achievement of a milestone as revenue in the period in which the milestone is achieved, if the milestone meets all the criteria to be considered substantive. ASU 2010-17 is effective for Envoy in fiscal 2012 and should be applied prospectively. Early adoption is permitted. Envoy is currently evaluating the impact of the adoption of this standard on Envoy s consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20 an accounting update to provide guidance to enhance disclosures related to the credit quality of a company's financing receivables portfolio and the associated allowance for credit losses ("FASB ASC Topic 310"). Pursuant to this accounting update, a company is required to provide a greater level of disaggregated information about its allowance for credit loss with the objective of facilitating users' evaluation of the nature of credit risk inherent in Envoy's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. The adoption of such standard did not have a material impact on Envoy's consolidated financial statements and disclosures.

In December 2010, the FASB issued ASU 2010-28 an accounting pronouncement related to intangibles - goodwill and other ("FASB ASC Topic 350"), which requires a company to consider whether there are any adverse qualitative factors indicating that an impairment may exist in performing step 2 of the impairment test for reporting units with zero or negative carrying amounts. The provisions for this pronouncement are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, with no early adoption. Envoy will adopt this pronouncement for our fiscal year beginning October 1, 2011.

The adoption of this pronouncement is not expected to have a material impact on our consolidated financial statements.

In December 2010, the FASB issued ASU 2010-29 an accounting pronouncement related to business combinations ("FASB ASC Topic 815"), which specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. It also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. Envoy is currently evaluating the impact of the adoption of this standard on Envoy s consolidated financial statements.

The FASB has issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs.

The FASB has issued Accounting Standards Update (ASU) No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU amends the FASB Accounting Standards Codification to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 should be applied retrospectively. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011.

The FASB has issued Accounting Standards Update (ASU) No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued.

C. Research and Development, Patents and Licenses, etc.

Not applicable.

D. Trend Information

Not applicable.

E. Off-Balance Sheet Arrangements

None.

F. Commitments and Contractual Commitments

Set out below is a summary of the amounts due and committed under contractual cash obligations of Envoy at September 30, 2011:

	Total	Due in year 1	Due in year 2	Due in year 3
Operating leases	$ 50,100	$ 50,100	$ -	$ -
Long term debt	-	-	-	-
Total contractual cash obligations	$ 50,100	$ 50,100	$ -	$ -

G. Safe Harbor

See About Forward-Looking Statements in the introduction to this Annual Report.

Item 6: Directors and Senior Management and Employees

A. Directors and Senior Management

As of September 30, 2011, the directors of Envoy were as follows:

Name Province/State Country of Residence and Position(s) with Envoy	Periods during which Individual has Served as a Director or Officer
Robert Pollock Ontario, Canada President and CEO and Director	February 10, 2011 December 19, 2011
Andrew Patient Ontario, Canada Chief Financial Officer	October 1, 2008(1) December 19, 2011
Priscilla Cheung Ontario, Canada Secretary	September 1, 2011 December 19, 2011

Name Province/State Country of Residence and Position(s) with Envoy	Periods during which Individual has Served as a Director or Officer
John Campbell Ontario, Canada Director	February 10, 2011 December 19, 2011
Dave Guebert Alberta, Canada Director	February 10, 2011 December 19, 2011
Tim Sorensen Ontario, Canada Director	February 10, 2011 December 19, 2011

(1) On October 1, 2008, Mr. Patient was appointed as Chief Financial Officer of Envoy. Mr. Patient was appointed President of Envoy on December 31, 2009, a position he held until February 10, 2011, when he was reappointed Chief Financial Officer.

The current directors and officer of Merus are as follows:

Name Province/State Country of Residence and Position(s) with Merus[1]	Periods during which Individual has Served as a Director or Officer
Ahmad Doroudian Vancouver, BC Canada Chief Executive Officer and Director	December 19, 2011 Present
Elie Farah Ontario, Canada President and Director	January 12, 2012 Present
Andrew Patient Ontario, Canada Chief Financial Officer	December 19, 2011 Present
Moira Ong British Columbia, Canada Vice President, Finance and Secretary	December 19, 2011 Present
Ali Moghaddam Quebec, Canada Vice President Business Development & Commercial Operations	December 19, 2011 Present
David Guebert[2][3] Ontario, Canada Director	December 19, 2011 Present
Robert Pollock[3] Ontario, Canada Director	December 19, 2011 Present

Name Province/State Country of Residence and Position(s) with Merus[1]	Periods during which Individual has Served as a Director or Officer
Joseph Rus[2][3] Ontario, Canada Director	December 19, 2011 Present
Timothy Sorensen[2][3] Ontario, Canada Director	December 19, 2011 Present

(1) Information has been furnished by the respective individuals.
(2) Denotes a member of the Audit Committee of Merus.
(3) Denotes an independent director.

Ahmad Doroudian President, Chief Executive Officer, and Director

Dr. Doroudian was appointed as the President, Chief Executive Officer and director of Merus on March 15, 2010. Since May 2009, Dr. Doroudian has been the President, Chief Executive Officer and a director of Merus subsidiary, Merus Labs Inc. He is also a director of Neurokine Pharmaceuticals Inc., a private pharmaceutical company that develops new uses for existing drugs, since April of 2007. He was the Chief Executive Officer of Neurokine Pharmaceuticals Inc. from May 2009 to September 2011. He was the President of Rayan Pharma Inc., an exporter of pharmaceuticals to Eastern Europe, from March 2003 to April 2007. From November 2003 to March 2004, Dr. Doroudian was the Vice Chairman of the board of PanGeo Pharma Inc., a TSX listed company (now PendoPharm, a division of Pharmascience Inc.) and he served as Chief Executive Officer, Chairman and Director of PanGeo from April 1996 to November 2003. Dr. Doroudian has been involved with early stage financing and management of private and publicly listed companies since 1996. Dr. Doroudian holds a Bachelors Degree in Biochemistry and a Masters Degree and Ph.D. in Biopharmaceutics from the University of British Columbia. Dr. Doroudian is 49 years old and is a Canadian citizen resident in Vancouver, British Columbia.

Elie Farah President and Director

Mr. Farah was appointed as Merus President in January 2012. Mr. Farah previously headed the global mergers and acquisitions initiative with Boehringer Ingelheim GmbH, an international pharmaceutical company based in Germany. Mr. Farah executed and oversaw strategic transactions across Europe and the Americas while working at the North American holding company in Canada and subsequently at the global headquarters in Germany. Most recently, Mr. Farah was the President and CFO of Transition Therapeutics Inc. During his time at Transition Mr. Farah played an instrumental role in the company listing on NASDAQ, completing equity financings, managing and executing multiple company acquisitions as well as licensing agreements with large pharmaceutical companies. He holds an MBA and an MAcc in addition to the following designations; Chartered Financial Analyst (CFA) and Chartered Accountant (CA).

Andrew Patient Chief Financial Officer

Mr. Patient began serving as the Company s Chief Financial Officer in 2008. Mr. Patient joined Envoy in 2001, initially serving as controller at Envoy s former wholly-owned subsidiary, Watt International Inc. In February 2006, Mr. Patient moved to the corporate head office in the role of Director of Finance, responsible for all aspects of Envoy s financial reporting. Prior to joining Envoy, Mr. Patient spent six years at BDO Dunwoody LLP in Canada and five years in financial roles at early stage technology companies in San Diego, California. Mr. Patient was appointed President and Chief Executive Officer of Envoy on December 22, 2009. Mr. Patient ceased to serve as President and

Chief Executive Officer of Envoy on February 10, 2011 and was reappointed as Envoy s Chief Financial Officer. Mr. Patient holds a Bachelor of Accounting degree from Brock University and obtained his CA designation in 1995.

Moira Ong Vice President, Finance

Ms. Ong was appointed as Merus Chief Financial Officer on March 30, 2010. Ms. Ong has more than 10 years experience in public accounting and audit reporting. From 2005 until 2010, Ms. Ong was the senior manager at Grant Thornton LLP in charge of completion of financial statements for Canadian publicly listed companies in addition to serving as financial consultant for Strategic Income Security Services from 2003 to 2005. Ms. Ong was an audit manager in the Banking and Securities group at Deloitte & Touche LLP in New York from 2000 to 2003 and served as the senior accountant for Grant Thornton LLP from 1996 to 2000. Ms. Ong obtained her CA designation in 1999 and her CFA designation in 2003.

Ali Moghaddam Vice President Business Development & Commercial Operations

Mr. Moghaddam was appointed as Vice President of Merus on March 1, 2011, he was appointed Merus director on March 15, 2010. Since May 21 2009 he has been a director of Merus Labs. Mr. Moghaddam was a general manager of Corporation Bioheel Inc. (Canada)/Nuvovie Inc. (U.S.A.), a North American specialty healthcare company focused on health and nutrition, which he joined in 2008. He was the President, Chief Executive Officer and founder of Arura Pharma Inc., an integrated specialty healthcare company from 2005 to January 2008. Mr. Moghaddam acted as the President and Chief Executive Officer of Chaichem Pharmaceutical Inc., focusing on commercialization of the company s products in the area of Oncology API, from 2002 to 2004. Before being appointed to these positions, he acted as a senior director of corporate business development of E-Z-EM Inc., a major manufacturer of contrast agents for gastrointestinal radiology, subsequently acquired by Bracco Diagnostics, Inc. Mr. Moghaddam holds a Bachelor of Commerce with Major in Finance & Marketing from Concordia University. He also has a CMA designation of McGill University.

Robert S. Pollock Director

Mr. Pollock is Director, President and Chief Executive Officer of Primary Corp. (TSX: PYC), a natural resources lending company, and Director and Chief Executive Officer of Primary Capital Inc., an exempt market dealer. He served as Senior Vice President of Quest Capital Corp. from September 2003 to October 2006. He was formerly Vice President Investment Banking at Dundee Securities Corporation and has 15 years of experience in the Canadian capital markets with specific experience in merchant banking, institutional sales and investment banking. Mr. Pollock holds an MBA from St. Mary s University (1993) and a BA from Queen s University (1991).

Mr. Pollock s principal occupations during the five preceding years are as follows: since February 10, 2011, he has been the Chief Executive Officer and a Director of Envoy. Since August 2008, he has been the Director and Chief Executive Officer of Primary Corp. and since July 2008 he has been Director and Chief Executive Officer of Primary Capital Inc. From September 2003 to October 2006 he served as Senior Vice President of Quest Capital Corp.

David D. Guebert Director

Mr. Guebert is a chartered accountant and certified public accountant with over 30 years of experience in finance and accounting, 20 of which were served as chief financial officer of public and private companies in the resource and technology sectors. He is currently the Chief Financial Officer of Primary Corp., a merchant banking company. He is also is the Chief Financial Officer of Cell-Loc Location Technologies Inc., a wireless location technology company. Mr. Guebert holds a B.Comm. from the University of Saskatchewan (1979).

Mr. Guebert s principal occupations during the five preceding years are as follows: Since 2007 he has been Chief Financial Officer of Primary Corp. and since 2004 has been Chief Financial Officer of Cell-Loc Location Technologies Inc. Since 2010 he has also been a director of Advitech Inc., a biotech company.

Timothy G. Sorensen Director

Mr. Sorensen is a Director and the President of Primary Capital Inc., an exempt market dealer. He recently joined Primary Capital from Macquarie Capital Markets Canada where he served as Divisional 7 Director Head of Institutional Sales. Mr. Sorensen has over 14 years of capital markets experience in institutional sales and equity analysis. He has a CFA designation and holds an MBA (1996) and B.Comm (1995) both from the University of Windsor.

Mr. Sorensen s principal occupation during the five preceding years is as follows: he has been President of Primary Capital Inc. since November 2010. From January 2008 until September 2010, he was the Divisional Director Head of Institutional Sales of Macquarie Capital Markets Canada and prior to that, he was an institutional sales person from 2004 to 2008 with Orion Financial Inc., which became Macquarie Group in 2007.

Joseph Rus Director

Mr. Joseph Rus was appointed Director of Envoy on October 31, 2011. Prior to his appointment, Mr. Rus joined Shire Pharmaceuticals in 1999, following 25 years of experience with two major Pharmaceutical Companies (Warner Lambert & Hoffmann-la Roche) in both Canadian and Global assignments. In 2002, Mr. Rus returned to the U.K. as head of Shire s International Operations (all countries except the USA). Since that time Mr. Rus also served on Shire s Executive Committee as well as the Portfolio Review Committee. In 2006, Mr. Rus was charged with the responsibility of establishing affiliates in the increasingly important emerging markets, and by 2009 affiliates were open in Brazil, Mexico, Argentina, Russia, Australia and Japan.

Mr. Rus is a Canadian citizen who received his education in Romania and is a graduate of the Executive Marketing Program at the University of Western Ontario in London, Ontario, as well as the International Program at the Institute of Management and Development of the University of Lausanne in Switzerland.

There are no arrangements or understandings between any director or executive officer of Merus with major shareholders, customers or others, pursuant to which he or she was selected as such. There are no family relationships between any of the persons named above.

B. Compensation

The following table sets forth in, Canadian dollars all compensation for the fiscal year ended September 30, 2011 paid to the principal executive officer of Envoy, the principal financial officer of Envoy and the three other most highly compensated officers who served as executive officers of Envoy (the Named Executive Officers):

	Annual Compensation			Long-Term Compensation			
				Awards		Payouts	
Name and Principal Position	Salary ($)	Bonus ($)	Other Annual ($)	Securities Under Option/SARs Granted (#)	Restricted Shares or Restricted Share Units ($)	LTIP Payouts ($)	All Other Compensation ($)
Robert Pollock, President and Chief Executive Officer	---	---	$8,000[1]	150,000[2]	---	---	---
Andrew Patient, Chief Financial Officer	$290,000	---	$2,250[3]	---	---	---	---
Geoffrey B. Genovese, Former President and Director, Envoy Capital Group Monaco S.A.M.[4]	$361,539[5]	---	---	---	---	---	---
Patrick Rodmell, President and Chief Executive Officer, Watt International Inc.	$328,000	---	---	---	---	---	---
Darlene Soper, Former Corporate Secretary[6]	$91,666	---	$5,400[3]	---	---	---	---

1. Amounts received in respect of directors fees.
2. On July 26, 2011, Mr. Pollock was granted 150,000 common share options, exercisable at $2.00 per share for a term of 5 years, in connection with his services as a director (see director compensation table).
3. Amounts received in respect of car allowances.

4. The contract of Mr. Genovese was terminated as of February 9, 2011.
5. The compensation of Mr. Genovese was paid in Euros. During fiscal 2011 until termination of his contract, the average rate of exchange for the conversion of one Euro into Canadian dollars was $1.3695 (Cdn $1.00 equals Euro 0.7302).
6. The contract of Ms. Soper was terminated as of August 31, 2011.

The following table sets forth options granted under the Stock Option Plan to the Named Executive Officers of the Company in the most recently completed fiscal year and the value of unexercised options held by them as at the most recent fiscal year:

Stock Options Awards During 2011 Fiscal Year

Name	Number of securities underlying unexercised options (#)	Option exercise price ($)	Option expiration date	Number of options at FY-End Vested/Unvested (#)
Robert Pollock	150,000	2.00	July 25, 2016	150,000/nil
Andrew Patient	Nil	Nil	nil/nil	nil/nil
Geoffrey B. Genovese	Nil	Nil	nil/nil	nil/nil
Patrick Rodmell	Nil	Nil	nil/nil	nil/nil
Darlene Soper	Nil	Nil	nil/nil	nil/nil

The following table sets forth options exercised under the Stock Option Plan to the Named Executive Officers of the Company in the most recently completed fiscal year and the value of unexercised options held by them as at the most recent fiscal year:

Stock Options Exercised During 2011 Fiscal Year

Name	Number of Shares Acquired on Exercise	Aggregate Value Realized ($)	Unexercised Options at FY-End Exercisable/ Unexercisable (#)	Value of Unexercised In the Money Options at FY-End Exercisable/Unexercisable ($)
Robert Pollock	Nil	Nil	150,000/nil	nil/nil
Andrew Patient	Nil	Nil	nil/nil	nil/nil
Geoffrey B. Genovese	Nil	Nil	nil/nil	nil/nil
Patrick Rodmell	Nil	Nil	nil/nil	nil/nil
Darlene Soper	Nil	Nil	nil/nil	nil/nil

The Company does not provide any pension, retirement plan or other remuneration to its directors or officers that constitutes an expense to the Company.

Compensation of Directors:

All directors of the Company or any of its affiliates are compensated for their services as directors and members of a committee through a combination of monthly fees and share-based awards. Each director received a monthly fee of

$1,000. In addition, Directors are entitled to participate in the Company s Stock Option Plan.

Directors Compensation During 2011 Fiscal Year

Name	Fees earned ($)	Share-based awards ($)	Option-based awards (#)	Option exercise price ($)	Option expiration Date	All other compensation ($)
Robert Pollock[1]	$8,000	$nil	150,000	2.00	July 25, 2016[2]	$nil
Tim Sorensen	$8,000	$nil	150,000	2.00	July 25, 2016[2]	$nil
David Guebert	$8,000	$nil	150,000	2.00	July 25, 2016[2]	$nil
John Campbell	$8,000	$nil	150,000	2.00	July 25, 2016[2]	$nil
David Parkes	$8,000	$nil	nil	n/a	n/a	$nil
David Hull	$8,000	$nil	nil	n/a	n/a	$nil
Linda Gilbert	$8,000	$nil	nil	n/a	n/a	$nil

1. Mr. Pollock received compensation as a director in lieu of compensation as an officer.
2. All options vest immediately.

Directors and Officers Liability Insurance:

The Company maintains liability insurance for the benefit of the directors and officers of the Company and its subsidiaries against liability incurred by them in their respective capacities. The current annual policy limit is $10,000,000. Under the policy, individual directors and officers are reimbursed for losses incurred in their capacities as such, subject to a deductible of $50,000 for securities or employment practices claims and no deductible for all other claims. The deductible is the responsibility of the Company. The Company paid the annual premium of $93,500.

C. Board Practices

Corporate Governance:

The Company is subject to a variety of corporate governance guidelines and requirements enacted by the CSA, The Nasdaq Capital Market (Nasdaq) and by the SEC under its rules and those mandated by the United States Sarbanes-Oxley Act of 2002. During the recent past, there were several changes to the corporate governance and corporate governance disclosure requirements applicable to the Company. Specifically, the Canadian Securities Administrators introduced in final form National Instrument 58-101 - *Disclosure* of *Corporate Governance Practices* (NI 58-101) and National Policy 58-201 - *Corporate Governance Guidelines* (National Policy 58-201), both of which came into force on June 30, 2005 and effectively replaced the Corporate Governance Guidelines of the Toronto Stock Exchange.

The Company is required to disclose certain specified corporate governance information under NI 58-101. The disclosure required addresses items such as the constitution and independence of corporate boards, the functions to be performed by boards and their committees, the orientation and education of directors, ethical business conduct and compensation matters. Set out below is a description of certain corporate governance practices of the Company, required by NI 58-101.

As new regulations come into effect, the Compensation and Nominating and Corporate Governance Committee and the Company s Board of Directors (the Board) will continue to review the Company s corporate governance practices and make appropriate changes.

Board of Directors:

The articles of the Company provide that there shall be a Board of not less than three or more than ten directors. There are currently three independent directors on the Board. National Policy 58-201 recommends that boards of directors of reporting issuers be composed of a majority of independent directors (within the meaning of such term in NI 58-101).

The Board, on the recommendation of the Compensation and Nominating and Corporate Governance Committee, is responsible for determining whether or not each director is independent. To achieve this, the Board analyses all of the relationships each director has with the Company and its subsidiaries in light of the concept of independence in NI 58-101 and director independence standards adopted by the Board. These standards are available in the Governance section of the Company s website at www.meruslabs.com. In general, a director who meets these standards and who does not otherwise have a material relationship with the Company would be considered indepen