No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus supplement, together with the accompanying short form base shelf prospectus dated October 3, 2013 to which it relates, as amended or supplemented, and each document deemed to be incorporated by reference in the short form base shelf prospectus, constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities.

The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), and may not be offered or sold in any state, district or commonwealth of the United States of America, its territories or possessions (the "**United States**") and, subject to certain exceptions, may not be offered or sold, directly or indirectly, within the United States or to or for the account or benefit of any "U.S. Person" (as defined in Regulation S made under the U.S. Securities Act). This prospectus supplement does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States or to or for the account or benefit of a U.S. Person or person within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this prospectus supplement from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of Merus Labs International Inc., Mr. Andrew Patient, facsimile (416) 593-3725, and are also available electronically at www.sedar.com.

PROSPECTUS SUPPLEMENT
To the Short Form Base Shelf Prospectus dated October 3, 2013

New Issue — June 13, 2014

MERUS LABS INTERNATIONAL INC.

$27,200,000
16,000,000 Shares

We are hereby qualifying for distribution 16,000,000 common shares (the "**Offered Shares**") of Merus Labs International Inc. ("**Merus**" or the "**Company**") at a price (the "**Offering Price**") of $1.70 per share (the "**Offering**"). The Offering is made pursuant to an underwriting agreement (the "**Underwriting Agreement**") dated June 13, 2014 among us, Canaccord Genuity Corp., Clarus Securities Inc., Cormark Securities Inc., Paradigm Capital Inc., TD Securities Inc. and Euro Pacific Canada Inc. (collectively, the "**Underwriters**") as more fully described under the section entitled "Plan of Distribution" in this Prospectus Supplement.

Our common shares (the "**Common Shares**") are listed and posted for trading on the Toronto Stock Exchange ("**TSX**") under the symbol MSL and on the NASDAQ Capital Market ("**NASDAQ**") under the symbol MSLI. We have applied to the TSX and NASDAQ for the listing of the Offered Shares. Listing of the Offered Shares will be subject to us fulfilling all of the listing requirements of the TSX and NASDAQ, respectively. The closing price of our Common Shares on June 13, 2014 on the TSX was $2.23 and on NASDAQ was US$2.05. The Offering Price of the Offered Shares was determined by arm's length negotiation between us and the Underwriters with reference to the prevailing market price of our Common Shares.

Price: $1.70 per Offered Share

	Price to the Public(1)	Underwriters' Fee(1)	Net Proceeds to the Company(2)
Per Share	$1.70	$0.085	$1.615
Total	$27,200,000	$1,360,000	$25,840,000

(1) The Company has agreed to pay to the Underwriters a fee of $1,360,000, representing 5% of the aggregate proceeds of the Offering, or $0.085 per Offered Share sold (the "**Underwriters' Fee**"). See "Plan of Distribution".

(2) After deducting the Underwriters' Fee, but before deducting the expenses of the Offering (including listing fees), which are estimated at $300,000.

The Underwriters, as principals, conditionally offer the Offered Shares subject to prior sale, if, as and when issued by us and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution", and subject to the approval of certain legal matters on our behalf by McMillan LLP and on behalf of the Underwriters by Stikeman Elliott LLP. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. The closing of the Offering is expected to occur on or about June 19, 2014 (the "**Closing Date**"). It is expected that the Company will arrange for an electronic non-certificated instant deposit of the Offered Shares to or for the account of the Underwriters with CDS Clearing and Depository Services Inc. ("CDS") or its nominee on the Closing Date against payment of the aggregate purchase price for the Offered Shares. A purchaser of Offered Shares will receive only a customer confirmation from the registered dealer through which the Offered Shares are purchased.

We have granted to the Underwriters an option (the "**Over-Allotment Option**") to purchase up to an additional 2,400,000 Common Shares (the "**Over-Allotment Shares**"), representing 15% of the number of Offered Shares sold under the Offering. The Over-Allotment Option is exercisable in whole or in part at any time up to 30 days after the date of closing of the Offering. If the Over-Allotment Option is exercised in full, the total Price to the Public, Underwriters' Fee and Net Proceeds to the Company will be $31,280,000, $1,564,000 and $29,716,000, respectively. A purchaser who acquires Over-Allotment Shares that form part of the Underwriters' over-allocation position acquires those securities under this Prospectus Supplement, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. This Prospectus Supplement qualifies the grant of the Over-Allotment Option and the issuance of the Over-Allotment Shares issuable upon any exercise of the Over-Allotment Option. See "Plan of Distribution". References to "Offered Shares" in this Prospectus Supplement shall include the Over-Allotment Shares, as applicable in the context used.

The following table sets out the number of options or other compensation securities, if any, which have been issued or may be issued by us to the Underwriters:

Underwriters' Position	**Maximum Size or Number of Securities Available**	**Exercise Period or Acquisition Date**	**Exercise Price or Average Acquisition Price**
Over-Allotment Option	2,400,000 Over-Allotment Shares	Exercisable for a period of 30 days following closing of the Offering	$1.70 per Over-Allotment Share

Investing in the Offered Shares involves significant risks. You should carefully read the "Risk Factors" section of this Prospectus Supplement beginning on page S-20, the "Risk Factors" section in the accompanying short form base shelf prospectus dated October 3, 2013 (the "Prospectus") beginning on page 16, and the documents incorporated by reference therein and herein.

You should be aware that the acquisition, holding or disposition of the Offered Shares may subject you to tax consequences in Canada. This Prospectus Supplement and the accompanying Prospectus may not describe these tax consequences fully. You should consult with your own tax advisors with respect to your own particular circumstances.

All references in this Prospectus Supplement and the Prospectus to "dollars" or "$" are to Canadian dollars, unless otherwise stated. References to "US$" are to United States dollars.

Our head office is located at 100 Wellington St. West, Suite 2110, Toronto, Ontario, Canada M5K 1H1 and our registered office is located at 1055 West Georgia Street, Suite 1500, Vancouver, British Columbia, Canada V6E 4N7.

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Prospectus Supplement

IMPORTANT NOTICE ABOUT THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of the securities being offered and also adds to and updates information contained in the accompanying Prospectus and the documents incorporated by reference herein and therein. The second part, the Prospectus, gives more general information, some of which may not apply to the Offering. This Prospectus Supplement is deemed to be incorporated by reference into the Prospectus solely for the purposes of the Offering. Other documents are also incorporated or deemed to be incorporated by reference into this Prospectus Supplement and into the Prospectus. See “Documents Incorporated by Reference”.

You should rely only on the information contained in or incorporated by reference in this Prospectus Supplement and the Prospectus. If the description of the Offered Shares varies between this Prospectus Supplement and the Prospectus, you should rely on the information in this Prospectus Supplement. Neither the Company nor the Underwriters have authorized any other person to provide investors with additional or different information. If anyone provides you with any additional, different or inconsistent information, you should not rely on it. The Company is not, and the Underwriters are not, making an offer of the Offered Shares in any jurisdiction where the offer is not permitted by law. You should not assume that the information contained in or incorporated by reference in this Prospectus Supplement or the Prospectus is accurate as of any date other than the date of the document in which such information appears. Our business, financial condition, results of operations and prospects may have changed since those dates. Information in this Prospectus Supplement updates and modifies the information in the accompanying Prospectus and information incorporated by reference herein and therein. To the extent that any statement made in this Prospectus Supplement differs from those in the accompanying Prospectus, the statements made in the accompanying Prospectus and the information incorporated by reference herein and therein are deemed modified or superseded by the statements made by this Prospectus Supplement.

GENERAL MATTERS

In this Prospectus Supplement, “we”, “us” and “our” refers, collectively, to Merus Labs International Inc. and our wholly owned subsidiaries.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus Supplement is deemed, as of the date hereof, to be incorporated by reference into the accompanying Prospectus solely for the purposes of the Offering.

Information has been incorporated by reference in the Prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from our Chief Financial Officer by contacting us at 100 Wellington Street West, Suite 2110, P.O. Box 151, Toronto, Ontario, Canada, M5K 1H1, telephone (416) 593-3725; facsimile (416) 593-4434, or by accessing our disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

The following documents were filed with the securities commission or other similar securities regulatory authority in the provinces of Canada in which the Company is a reporting issuer and are specifically incorporated by reference into, and form an integral part of, the Prospectus, as supplemented by this Prospectus Supplement:

(a) our annual report on Form 20-F for the fiscal year ended September 30, 2013 dated December 30, 2013 (the “**Annual Report on Form 20-F**”) which includes our audited consolidated financial statements comprising of the consolidated balance sheets as at September 30, 2013 and 2012 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the years in the three year period ended September 30, 2013, together with the notes thereto and the Report of Independent Registered Public Accounting Firm thereon (the “**Annual Financial Statements**”);

(b) our management’s discussion and analysis of consolidated results of operations and financial condition dated December 30, 2013 for the three and twelve months ended September 30, 2013;

(c) our management information circular and form of proxy dated February 25, 2014 prepared in connection with the annual general and special meeting of our shareholders to be held on March 27, 2014;

(d) our material change report dated March 25, 2014;

(e) our material change report dated April 3, 2014;

(f) our unaudited consolidated interim financial statements as at and for the three and six months ended March 31, 2014, together with the notes thereto;

(g) our management's discussion and analysis of consolidated results of operations and financial condition dated May 14, 2014 for the three and six months ended March 31, 2014; and

(h) our material change report dated June 10, 2014.

Any documents of the type referred to in the preceding paragraph, or similar material, including all annual information forms, all information circulars, all annual and interim financial statements and management's discussion and analysis relating thereto, all material change reports (excluding confidential material change reports, if any), all business acquisition reports, all updated earnings coverage ratio information and certain other documents as set forth in Item 11.1 of Form 44-101F1 of National Instrument 44-101 —*Short Form Prospectus Distributions* filed by us with securities commissions or similar authorities in the relevant provinces of Canada subsequent to the date of this Prospectus Supplement and prior to the completion of the Offering will be deemed to be incorporated by reference into this Prospectus Supplement.

Any statement contained in this Prospectus Supplement, the Prospectus or in a document (or part thereof) incorporated by reference herein or therein, or deemed to be incorporated by reference herein or therein, shall be deemed to be modified or superseded, for purposes of this Prospectus Supplement, to the extent that a statement contained in this Prospectus Supplement or in any subsequently filed document (or part thereof) that also is, or is deemed to be, incorporated by reference in this Prospectus Supplement or in the Prospectus modifies or replaces such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Prospectus Supplement or the Prospectus. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document which it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Upon a new annual information form and related annual financial statements and management's discussion and analysis, being filed with and, where required, accepted by, the applicable securities regulatory authorities during the currency of this Prospectus Supplement, the previous annual information form, annual and interim financial statements and management's discussion and analysis relating thereto and material change reports filed prior to the commencement of the then current fiscal year will be deemed no longer to be incorporated into this Prospectus Supplement for purposes of future offers and sales of securities under this Prospectus Supplement. Upon a new management proxy circular relating to an annual meeting of our shareholders being filed with the applicable securities regulatory authorities during the currency of this Prospectus Supplement, the management proxy circular for the preceding annual meeting of shareholders will be deemed no longer to be incorporated by reference into this Prospectus Supplement for purposes of future offers and sales of securities under this Prospectus Supplement.

You should rely only on the information contained in or incorporated by reference in this Prospectus Supplement and the Prospectus. We are not making an offer of Offered Shares in any jurisdiction where the offer is not permitted by law.

Information contained on our website, www.meruslabs.com, is not part of this Prospectus Supplement or the Prospectus and is not incorporated herein by reference and may not be relied upon by you for the purpose of determining whether to purchase the Offered Shares.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement contains or incorporates by reference "forward-looking information" or "forward-looking statements" within the meaning of applicable Canadian and United States securities laws. Forward-looking statements describe our future plans, strategies, expectations and objectives, and are generally identifiable by use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations on these words or comparable terminology. Forward-looking statements contained or incorporated by reference into the Prospectus and this Prospectus Supplement include, without limitation, statements regarding:

- the timing and completion of the Offering;
- the use of proceeds of the Offering;
- our growth and acquisition strategy;
- the amount of funds available to us to pursue our growth and acquisition strategy;
- our ability to raise funds to enable us to complete our growth and acquisition strategy;
- our expectations regarding sales from our existing products;
- our expectations regarding products that we acquire or license;
- our expectations regarding the development of our target markets; and
- our plans, objectives and targets for revenue growth and operating performance.

Such statements may not prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. The following are some of the risks and other important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements:

- our ability to successfully market and sell our products;
- our ability to service existing debt;
- our ability to increase sales of our existing products;
- our ability to complete the sale of the $10 million Series A preferred shares;
- our ability to complete the Dacha financing acquisition transaction;
- unanticipated cash requirements to support current operations, to expand our business or for capital expenditures;
- the activities of our competitors and specifically the commercialization of innovative or generic products that compete in the same category as our products;
- core patent protection for our initial portfolio has expired or will expire in the future, which could result in significant competition from generic products resulting in a significant reduction in sales;
- our ability to successful challenge the Apotex notice of allegation with respect to our Enablex product;
- our ability to acquire new products and, upon acquisition, to successfully market and sell new products that we acquired;

- our ability to achieve the necessary financing to complete the acquisitions of new products;
- the acceptance of our products by provincial drug benefit formularies, hospital formularies and pharmacies, physicians and patients in the marketplace;
- delays or setbacks with respect to 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 our products;
- the ability to source, develop and commercialize new products effectively;
- the inability to adequately protect our key intellectual property rights;
- the inability to make royalty payments as they become due;
- the loss of key management or scientific personnel;
- regulatory, legal or other setbacks with respect to our 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 us or our interests;
- the risk that we are 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 we operate.

These and other material risks and uncertainties, and factors and assumptions used to develop forward-looking statements, are further described on pages 9 to 16 of our Annual Report on Form 20-F.

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 us, 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 Prospectus Supplement and in the Prospectus in connection with the statements or disclosure containing the forward-looking information. The reader is cautioned that the following list of material factors and assumptions is not exhaustive. The factors and assumptions include, but are not limited to:

- the receipt of all required regulatory approvals, including those of the TSX and NASDAQ, to complete the Offering;
- no unforeseen changes in the legislative and operating framework for our business;
- a stable competitive environment; and
- no significant event occurring outside the ordinary course of business such as a natural disaster or other calamity.

Although we have attempted to identify important factors that could cause our actual results to differ materially from our plans, strategies, expectations and objectives there may be other factors that could cause our results to differ from what we currently anticipate, estimate or intend. Forward-looking statements are provided to assist external stakeholders in understanding management's expectations and plans relating to the future as of the date of the original document and may not be appropriate for other purposes. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements made in a document incorporated by reference in the Prospectus and this Prospectus Supplement are made as at the date of the original document and have not been updated by us except as expressly provided for in the Prospectus and/or this Prospectus Supplement. Except as required under applicable securities laws, we undertake no obligation to publicly update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

We qualify all the forward-looking statements contained in this Prospectus Supplement, the Prospectus and the documents incorporated by reference herein and therein by the foregoing cautionary statements.

OUR BUSINESS

Our Business

We are 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 thresholds for large pharmaceutical companies.

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. Our corporate growth strategy is driven by a product acquisition plan which employs an opportunistic approach to source product acquisition candidates. Our objective is to source pharmaceutical products across broad therapeutic classes in order to provide access to acquisition targets not available to other players and to create a diversified strategy. Although we have a broad therapeutic focus, we may pursue opportunities if the application of a dedicated small scale sales force can deliver incremental product sales growth. Our current geographic focus is Canada and Europe. We believe that our corporate strategy will result in a diversified product portfolio approach. To manage such a product portfolio, we have implemented a low cost operating model in which there is a light infrastructure footprint. Consistent with this approach, we have partnered with third party contract manufacturing and regulatory service providers to leverage their expertise while still maintaining maximum flexibility for us.

Business Model for Acquisition of Diversified Legacy Products

We believe that we have a unique strategy in seeking to acquire legacy products primarily for the purpose of generating a stream of stable revenues and cash flow. We believe that this strategy will provide us with the flexibility to consider a broad range of acquisition targets from a variety of therapeutic areas. Our management believes that our approach to product acquisition and our return objectives provides us with a competitive advantage in acquiring products as we can purchase diversified bundles of products from a single vendor. In contrast, our competitors, such as niche pharmaceutical companies, are more likely to focus on individual product acquisitions within the same therapeutic area. As a result, certain vendors may view us as a preferred purchasing candidate.

Predictable Cost Structure

Our plan is to establish a predictable cost structure by relying on a small employee base and outsourcing most of the operational functions associated with our business, including warehousing, distribution, customer service, invoicing, collections, regulatory affairs, medical and drug information, human resources and informational technology. Wherever possible, our objective will be 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 our manufacturing supply agreements, our cost of goods will be based on a fixed, per unit cost with annual inflationary adjustments. Our management believes the predictability, flexibility and efficiency gained by contracting with established, experienced service organizations will assist us in maintaining our margins and maximizing distributable cash.

Partnership with Leading Service Providers

As part of our business plan, one of our key objectives will be to enter into outsourcing relationships with leading providers of pharmaceutical contract services for many of the operational functions associated with our business and we intend to pursue this strategy in the future.

Recent Events

Senior Secured Debt Facility

On September 24, 2013, we entered into a new senior secured debt facility with a syndicate of Canadian chartered banks. We used the proceeds of the new facility, in combination with the convertible debenture described below, to repay the Company's credit facility with PDL BioPharma Inc. The new facility matures September 30, 2016 and provides for a $30 million term loan, currently at prime plus 3.0%, with monthly payments of principal and interest. Principal payments are $700,000 per month for the first 24 months, increasing to $1,100,000 per month for the final 12 months. The facility also provides for up to $2 million on a revolving line of credit, based on eligible accounts receivable. The debt facility is secured by all assets of the Company and contains customary affirmative and negative covenants including compliance with laws and restrictions on additional debt, as well as customary financial covenants, including restrictions on our payment of dividends.

Convertible Debentures

In connection with our new senior secured debt facility, we issued convertible debentures with a principal value of $10,000,000 to two investment funds. The debentures have a term of five years, maturing September 20, 2018, with interest at 8.0%, payable quarterly. The principal amount of the debentures are convertible at the option of the holder into common shares at a fixed rate of $1.50 per common share, with an option for the Company to force conversion if its common shares trade at, or above, $2.30 per share for 20 consecutive days. In connection with the issue of the convertible debentures, we granted a right of first refusal to the investor to participate in certain future offerings of our securities for the two year period from the date of issuance of the convertible debentures. For those future offerings to which the right of first refusal applies, the investor will be entitled to purchase up to 15% of the securities offered.

Notice of Allegation from Apotex

We have received notification from Apotex Inc. ("**Apotex**") that it has filed with Health Canada an Abbreviated New Drug Submission ("**ANDS**") seeking market approval for a generic version of Enablex® (darifenacin hydrobromide tablets) for the Canadian marketplace. In connection with this filing, we received Notices of Allegation ("**NOAs**") from Apotex against our Enablex® patents listed on the Canadian patent register which expire in August of 2016 and beyond. The NOAs were issued under the Canada Patented Medicines (Notice of Compliance) Regulations (the "**Regulations**").

Enablex® is currently protected in Canada by three issued patents listed on the Canadian patent register. Merus intends to vigorously defend the Enablex® intellectual property rights and pursue all available legal and regulatory pathways in defense of the product. Under the Regulations, Merus is entitled to apply to Federal Court for an order preventing Health Canada from granting market authorization to Apotex in respect of the ANDS until after the expiration of the applicable patents. If the Federal Court were to decide in favour of Merus in such an action, Health Canada would be prohibited from granting market authorization to Apotex until Merus' patents listed on the patent register expire.

Series A Preferred Shares

We entered into two private placement subscription agreements with a large Canadian institutional investor on June 10, 2014 pursuant to which we have agreed to create and issue an aggregate of 10,000 Series A convertible preferred shares (the "**Series A Preferred Shares**") at a price of $1,000 per Series A Preferred Share for gross proceeds of $10 million. The institutional investor is the holder of our outstanding convertible debentures, as described above.

The Series A Preferred Shares will pay a dividend of 8% per annum, subject to adjustment if we do not redeem the Series A Preferred Shares after October 31, 2019. At any time at the option of the investor, the Series A Preferred Shares may be converted into our Common Shares at a conversion price of $2.20 per Common Share, subject to customary adjustments. The Series A Preferred Shares are redeemable at our option at any time after October 31, 2019. The Series A Preferred Shares are also redeemable by us at any time in the event of a change of control subject to payment of a change of control premium. The Series A Preferred Shares are only redeemable by the investor if we do not complete a product acquisition transaction by December 31, 2014. The material rights and restrictions to be attached to the Series A Preferred Shares are set forth below under "*Description of Securities Being Distributed – Preferred Shares*".

The issuance and sale of the Series A Preferred Shares is subject to the satisfaction of the conditions to closing set forth in the private placement subscription agreements executed with the investor, including receipt of TSX and NASDAQ approval. The closing of the issuance and sale of the Series A Preferred Shares is expected to take place on July 11, 2014, provided that we and the subscriber may agree on an alternate closing date which will be no later than July 18, 2014.

Upon closing, the investor will be provided with right of first refusal rights with respect to further offerings by us of equity securities for a two year period following the closing date. Under the terms of such right of first refusal, we will be required to give advance notice to the investor or any offering of any Common Shares or preferred shares or securities convertible into or exercisable or exchangeable for Common Shares or preferred shares, subject to agreed upon carve-outs for mergers and acquisitions, strategic license arrangements and other partnering arrangements, stock options and conversion or exercise of outstanding convertible securities. Upon receipt of notice of an equity offering, the investor will have the right, subject to any required approval of the TSX, NASDAQ or any exchange on which our Common Shares are listed at the time, to subscribe for and purchase up to 15% of the equity securities (in aggregate, including any equity securities that may be purchased under any other agreements between the investor and us) that we actually issue and sell in the equity financing for the consideration and on the same terms and conditions as offered to the other potential purchasers.

We filed the form of the preferred share subscription agreement on SEDAR as a Material Document on June 10, 2014.

Financing Acquisition with Dacha Strategic Metals Inc.

We entered into a letter agreement with Dacha Strategic Metals Inc. ("**Dacha**") on June 10, 2014 (the "**Letter Agreement**") whereby we have agreed to acquire a new corporation to be incorporated by Dacha ("**Newco**") which upon closing will have a minimum of $11 million in cash, subject to adjustment, and no other assets or liabilities. We will acquire Newco from Dacha in exchange for the issuance of Common Shares to Dacha.

The Letter Agreement contemplates that we and Dacha will enter into an acquisition agreement (the "**Acquisition Agreement**") that will set out the structure of the acquisition of Newco, including the form of the acquisition (whether share purchase, amalgamation or otherwise) and the details of the steps to complete the acquisition. We and Dacha have agreed to structure the transaction to give effect to the acquisition in the most efficient manner possible having regard to the *Income Tax Act* (Canada) without prejudice to either party. We and Dacha have also agreed to use our respective best efforts to structure the acquisition such that the Common Shares to be issued to Dacha shall not be subject to a "restricted period" on trading under Section 2.5 of National Instrument

45-102. We and Dacha have agreed to our respective best efforts to negotiate and enter into the Acquisition Agreement on or before June 30, 2014 and to negotiate such agreement in good faith.

The purchase price to be paid by us to Dacha for Newco will equal the total value of the cash held by Newco at closing. We will pay the purchase price by issuing to Dacha a number of our Common Shares determined as the cash value of Newco on closing, divided by the agreed upon market value of our Common Shares of $1.70 per share, subject to certain purchase price adjustments (the "**Agreed Market Value of Merus Shares**"). We have also agreed to pay to Dacha a transaction structuring fee of 3.5% of the cash value of Newco on closing, which will be paid by the issuance of an additional number of our Common Shares on closing determined based on the Agreed Market Value of Merus Shares.

We have granted to Dacha the right and option during the period from the date of the Letter Agreement to the earlier of (i) the date of termination of this Letter Agreement (or, if the Acquisition Agreement is executed, the date of termination of the Acquisition Agreement) and (ii) the date the acquisition is completed, to participate in any equity financing undertaken by Merus Labs to an aggregate maximum of $6.0 million. An equity financing for the purpose of the Letter Agreement will include any offering of our Common Shares, or any other security convertible, exchangeable or exercisable into our Common Shares. Participation by Dacha in any such equity financing will be on the same terms and at the same offering price as offered to other investors in the financing and will be conditional upon Dacha receiving all required regulatory approvals for its participation in the financing. Dacha will exercise such option within five (5) business days of receipt from us of any written notice of offering that sets out the price and terms of such offering, or one (1) business day in the event of a bought deal offering. If Dacha elects to participate in any such equity financing and purchases a minimum amount of $4.0 million of the offered securities, then the "Agreed Market Value of Merus Shares", as provided for in the Letter Agreement, will be adjusted to equal the per share price of our Common Shares offered and sold in such equity financing and the number of our Common Shares to be issued to Dacha upon closing of the acquisition of Newco will be adjusted accordingly. Further, the minimum cash value of Newco required on closing will be reduced by the amount of the equity securities purchased by Dacha in the equity financing.

The Letter Agreement includes representations and warranties of each of us and Dacha with respect to the acquisition transaction. We have also agreed that the Acquisition Agreement will include additional representations and warranties in a customary form, including representations and warranties of Dacha regarding Newco.

The Letter Agreement includes conditions to closing in favour of both us and Dacha. Our obligations to complete include, without limitation, (i) organization of Newco in accordance with the Letter Agreement, (ii) receipt of the approval of the TSX and NASDAQ; (iii) no material adverse change with respect to Dacha, (iv) completion of confirmatory due diligence with respect to the organization of Newco, and (v) Newco having cash of not less than $11.0 million at closing, less the amount of any equity securities of Merus purchased by Dacha under its equity participation rights under the Letter Agreement. Dacha's obligations to complete include, without limitation, (i) receipt of approval of the TSX Venture Exchange, (ii) receipt of shareholder approval of Dacha to the transaction, (iii) Dacha's satisfaction with our capitalization on closing; and (iv) no material adverse change with respect to Merus.

We and Dacha have agreed to use commercially reasonable best efforts to complete the acquisition transaction by August 15, 2014, subject to the satisfaction or waiver of the closing conditions. If a definitive Acquisition Agreement for the transaction has not been executed by June 30, 2014 or if the acquisition transaction has not been completed by August 31, 2014, either party may terminate the Letter Agreement.

If we do not complete the acquisition as a result of our failure to satisfy the condition precedent to closing in favour of Dacha regarding our capitalization, Dacha will have the right and option for a period of one year from the date of the Letter Agreement to participate in any public equity financing of Merus up to a maximum of 15% of the total equity securities sold in the offering for an aggregate investment of up to $10.0 million.

Dacha has agreed to purchase $5.0 million of our Common Shares in the Offering. Accordingly, if the Offering is completed and Dacha completes its agreed upon purchase of our Common Shares in the Offering, the minimum cash value of Newco required at closing will be reduced from $11.0 million to $6.0 million. As the Offering Price is equal to the $1.70 per share Agreed Market Value of Merus Shares under the Letter Agreement, there will be no adjustment to the Agreed Market Value of Merus Shares for the Newco acquisition resulting from

Dacha's participation in the Offering. Dacha has further confirmed that completion of each of the Offering and the sale of the $10 million Series A Preferred Shares will result in satisfaction of the condition to closing in favour of Dacha regarding our capitalization.

We filed the Letter Agreement on SEDAR as a Material Document on June 10, 2014.

Our Products

We currently have products in the area of urology/women's health and anti-infectives.

Urology / Women's Health

Over Active Bladder

Overactive bladder occurs when a large muscle in the bladder known as the detrusor contracts more often than normal. This causes a person to feel a sudden and sometimes overwhelming urge to urinate even when the bladder is not full. Urgency, incontinence, and urinary frequency can also be caused by urinary-tract infections, kidney stones, prostate infection or enlargement, or medicine taken to treat other conditions such as high blood pressure. Though not life-threatening, overactive bladder is inconvenient, can be embarrassing, and can markedly reduce quality of life.

According to an article published in the Reviews of Urology by the Department of Urology, New York University School of Medicine, in women, moderate and severe bother have a prevalence ranging from about 3% to 17%. Severe incontinence has a low prevalence in young women, but rapidly increases at ages 70 through 80. In men, the prevalence of incontinence is much lower than in women, about 3% to 11% overall, with urge incontinence accounting for 40% to 80% of all male patients. Incontinence in men also increases with age, but severe incontinence in 70- to 80-year-old men is about half of that in women.

Decision Resources, an advisory firm for pharmaceutical and healthcare issues, finds that although more than 50 percent of people with overactive bladder in the world's major pharmaceutical markets are undiagnosed, the sizeable prevalent population fuels significant sales for the indication. As a result, the overactive bladder drug market will increase from approximately $3 billion in 2009 to nearly $4 billion in 2019 in the United States, France, Germany, Italy, Spain, United Kingdom and Japan.

Emselex®/Enablex®

In 2003, Novartis Pharma AG (Novartis) acquired Emselex®/Enablex® from Pfizer Inc. The product was approved for sale in Europe and the United States in 2004. As the global sales of Emselex®/Enablex® were below the critical Novartis sales threshold, Novartis decided to reduce its marketing and sales efforts in the majority of territories where the product was marketed. In 2010, Novartis divested the product rights for the United States to Warner Chilcott Plc. A key patent protecting Emselex®/Enablex® expires in August 2016.

Acquisition of Emselex®/Enablex® (darifenacin) Product Rights

In July 2012, we acquired from Novartis the Canadian and European rights (excluding France, Spain and Italy) to manufacture, market, and sell Emselex®/Enablex® extended release tablets. Darifenacin is a muscarinic antagonist indicated for the treatment of overactive bladder with symptoms of urge urinary incontinence, urgency and frequency. The product's specific mechanism of action is the blocking of the M3 muscarinic receptor, which is primarily responsible for bladder muscle contractions. As overactive bladder is a chronic condition, Emselex®/Enablex® is prescribed as a medication to be taken once daily and the extended release tablet format is produced in 7.5mg and 15mg dosage strengths.

Promotion and Distribution Agreements

As we have acquired the product rights to Emselex®/Enablex® in a number of European countries in which the product was not being actively marketed, we have entered into promotion and distribution agreements with local marketing and sales organizations with the goal of incrementally increasing sales in those regions.

Our strategy is for Emselex®/Enablex® to become a major growth driver for the Company and we believe these collaborations will enable Merus to broaden its reach in countries which were previously underserved in terms of marketing and sales efforts.

Contract Manufacturing

We have entered into an agreement with a European contract manufacturing group to manufacture Emselex®/Enablex® for sale and distribution in Europe and Canada. The operational phase of the manufacturing tech transfer began in May 2013. During the operational transition period Novartis will continue to manage the manufacturing of Emselex®/Enablex®. Once this operational transition period is concluded, we will manage the manufacturing under the contract manufacturing agreement.

Competitive Conditions

There are several other drugs in the over-active bladder market which compete directly with Enablex®. A key patent protecting our Enablex® product expires in August 2016, which could result in significant competition from generic products.

In addition, Apotex has filed for an ANDS seeking market approval for a generic version of Enablex® for the Canadian marketplace. In connection with this filing, we have received Notices of Allegation from Apotex against our Enablex® patents listed on the Canadian patent register which expire in August of 2016 and beyond. If Apotex is successful in obtaining a Notice of Compliance from Health Canada prior to the anticipated expiry of our patents, then we may experience generic competition for our Enablex® product earlier than originally anticipated with the result that our revenues from our Enablex® product may be less than anticipated due to a combination of (i) decreased pricing, and (ii) reduced market share resulting from generic competition. See above under "*Our Business – Recent Developments –Notice of Allegation from Apotex*".

Anti-infective Franchise - Vancocin

On May 13, 2011, we 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 International LP, a subsidiary of Iroko Pharmaceuticals, LLC.

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.

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.

Changes in the Competitive Landscape

The core patents protecting our Vancocin products expired on July 13, 2010. In December 2011, Health Canada granted a notice of compliance ("**NOC**") to Pharmaceutical Partners of Canada Inc. ("**PPC**"), which grants PPC the authority to market their generic version of Vancocin® capsules in the Canadian market. In July 2012, PPC confirmed its intentions to market a generic Vancomycin capsule product and in November 2012 gained reimbursement listing status in a number of provinces. The entry of this generic product has had a material adverse effect on the sales of Merus' branded Vancocin® capsules and other existing and future market entrants may also have a material adverse effect on sales.

In June 2012, Optimer Pharmaceuticals, Inc. ("**Optimer**") received approval from Health Canada for its product DIFICID®. DIFICID® is another method for the treatment of C. Difficile infection. Optimer asserts that DIFICID® has a lower recurrence rate than Vancocin®. However, DIFICID® is currently being sold in Canada at a much higher price than that of Oral Vancocin®. If Optimer is able to demonstrate that DIFICID® is preferable to Vancocin®, the business of Merus would be adversely affected.

Competitors of Merus

Our 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, region or territory. Competition also comes from generic companies, which develop and commercialize formulations that are identical to marketed brands. We currently compete with a number of pharmaceutical companies with respect to our existing products and anticipate we will be required to compete with additional pharmaceutical companies with respect to any future products that we acquire.

With respect to our acquisition strategy, we expect to be required 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. In addition, since we are not focused on specific therapeutic classes, we may have the ability to purchase diversified products and product bundles.

USE OF PROCEEDS

The net proceeds to us from the Offering, after payment of the Underwriters' Fee and deducting the expenses of the Offering (estimated to be $300,000), will be approximately $25,540,000, if the Over-Allotment Option is not exercised, and approximately $29,416,000, if the Over-Allotment Option is exercised.

We intend to use the net proceeds we receive from the Offering for financing of future acquisitions and for general working capital.

Although we intend to use the net proceeds from the Offering for the purposes set forth above, we reserve the right to use such net proceeds for other purposes to the extent that circumstances, including unforeseen events and other sound business reasons, make such use necessary or prudent. A key component of our business plan is to complete acquisitions of new products. However, we have not entered into any binding agreements to acquire any new products as of the date of this Prospectus Supplement and there is no assurance that we will be able to enter into such binding acquisition agreements. If we are to enter into any binding acquisition agreements, we anticipate that we may require financing beyond the amount of proceeds that we receive from the Offering in order to enable us to complete additional product acquisitions. We do not have any arrangements in place for such financing and there is no assurance we will be able to secure such financing to complete new product acquisitions. See "Risk Factors".

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, we have agreed to sell and the Underwriters have severally (and not jointly nor jointly and severally) agreed to purchase on the Closing Date, or such other date as may be agreed upon by the Company and the Underwriters, subject to the terms and conditions stated in the Underwriting

Agreement, all but not less than all of the 16,000,000 Offered Shares at the Offering Price, payable in cash to us against delivery of such Offered Shares.

The obligations of the Underwriters under the Underwriting Agreement may be terminated at their discretion upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any Offered Shares are purchased under the Underwriting Agreement, but are not obligated to take up and pay for any Over-Allotment Shares. The Underwriters, as principals, conditionally offer the Offered Shares subject to prior sale, if, as and when issued by us and accepted by the Underwriters, subject to approval of certain legal matters, including the conditions contained in the Underwriting Agreement, such as receipt by the Underwriters of officers' certificates and legal opinions.

The Offering is being made concurrently in each of the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. The Offered Shares will be offered in Canada through the Underwriters either directly or through their Canadian affiliates or agents, as applicable. No securities will be offered or sold in any jurisdiction except by or through brokers or dealers duly registered under the applicable securities laws of that jurisdiction, or in circumstances where an exemption from such registered dealer requirements is available.

The Underwriters propose to offer the Offered Shares initially at the price specified on the cover of this Prospectus Supplement. After the Underwriters have made a reasonable effort to sell all of the Offered Shares at the price specified on the cover page, the price may be decreased and may be further changed from time to time to an amount not greater than that set out on the cover page, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Company.

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Other than pursuant to certain exceptions, it is expected that the Company will arrange for an electronic non-certificated instant deposit of the Offered Shares to or for the accounts of the Underwriters with CDS or its nominee on the Closing Date against payment of the aggregate purchase price for the Offered Shares. A purchaser of Offered Shares will receive only a customer confirmation from the registered dealer through which the Offered Shares are purchased with respect to the Offered Shares.

The Company expects that delivery of the Offered Shares will be made against payment therefor on the Closing Date, which will is anticipated to be on or about June 19, 2014.

The Offering Price of the Offered Shares was determined based on arm's length negotiations between us and the Underwriters with reference to the prevailing market price of the Common Shares.

Over-Allotment Option

We have granted to the Underwriters the Over-Allotment Option to purchase up to an additional 2,400,000 Over-Allotment Shares, representing 15% of the number of Offered Shares sold under the Offering. The Over-Allotment Option is exercisable in whole or in part at any time up to 30 days after the date of closing of the Offering. A purchaser who acquires Over-Allotment Shares that form part of the Underwriters' over-allocation position acquires those securities under this Prospectus Supplement, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. This Prospectus Supplement qualifies the grant of the Over-Allotment Option and the issuance of the Over-Allotment Shares issuable upon any exercise of the Over-Allotment Option.

Underwriters' Fee and Expenses

We have agreed to pay a cash commission to the Underwriters in the amount equal to 5% ($0.085 per Offered Share sold) of the gross proceeds of the sale of the Offered Shares in consideration for services rendered. The aggregate commission payable to the Underwriters upon closing of the Offering will be $1,360,000. If the Over-Allotment Option is exercised in full, the aggregate commission payable to the Underwriters will be $1,564,000.

We have also agreed to reimburse the Underwriters for their reasonable fees and expenses incurred in connection with the Offering subject to certain limitations, including the reasonable, actual and documented fees and disbursements of independent counsel to the Underwriters.

Indemnity and Contribution

We have agreed to indemnify the Underwriters, and certain related parties, against certain liabilities, relating to, caused by, resulting from, arising out of or based upon, directly or indirectly, the Underwriters' activities in connection with the Offering; provided however that we shall not be required to indemnify any such person to the extent that a court of competent jurisdiction in a final judgment that has become non-appealable shall determine that such losses, expenses, claims, damages or liabilities were caused by the fraud, gross negligence, wilful misconduct or bad faith of such persons.

Lock-up Agreements

Pursuant to the Underwriting Agreement, our senior officers and directors are subject to lock-up agreements that prohibit such persons from selling, transferring or exercising any options to acquire Common Shares until 90 days from the Closing Date. The lock-up agreements do not apply to (a) offers received by the Company, which have not been withdrawn, to enter into a transaction or arrangement, or proposed transaction or arrangement, pursuant to which, if entered into or completed substantially in accordance with its terms, a party could, directly or indirectly acquire an interest (including an economic interest) in, or become the holder of, 100% of the total number of Common Shares of the Company, whether by way of takeover offer, scheme of arrangement, shareholder approved acquisition, capital reduction, share buyback, securities issue, reverse takeover, dual-listed company structure or other synthetic merger, transaction or arrangement; (b) sales to affiliates; (c) transfers occurring in connection with transactions arising as a result of death; (d) the exercise of options granted under the Company's stock option plan; (e) bona fide gifts; or (f) dispositions to any trust for the direct or indirect benefit of the director or officer and/or the immediate family of director or officer.

Price Stabilization and Short Positions

In connection with the Offering, the Underwriters may effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market, including: stabilizing transactions; short sales; purchases to cover positions created by short sales; imposition of penalty bids; and syndicate covering transaction.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Common Shares while the Offering is in progress. These transactions may also include making short sales of the Common Shares, which involve the sale by the Underwriters of a greater number of Common Shares than they are required to purchase in the Offering. The Underwriters must close out any short position by purchasing Common Shares in the open market.

Pursuant to policy statements of certain Canadian securities regulators, the Underwriters may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to certain exceptions for bids or purchases made through the facilities of the TSX, in accordance with the Universal Market Integrity Rules of the Investment Industry Regulatory Organization of Canada, including: (a) market stabilization or market balancing activities on the TSX where the bid for or purchase of securities is for the purpose of maintaining a fair and orderly market in the securities, subject to price limitations applicable to such bids or purchases; (b) a bid or purchase on behalf of a client, other than certain prescribed clients, provided that the client's order was not solicited by the Underwriters, or if the client's order was solicited, the solicitation occurred before the commencement of a prescribed restricted period; and (c) a bid or purchase to cover a short position entered into prior to the commencement of a prescribed restricted period.

Purchases of Common Shares to stabilize the price may cause the price of the Common Shares to be higher than it might be in the absence of such purchases. As a result of these activities, the price of the Common Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time.

The Underwriters may carry out these transactions on any stock exchange on which the Common Shares are listed, in the over-the-counter market, or otherwise.

Neither we nor the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Common Shares. In addition, neither we nor the Underwriters make any representation that the Underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

U.S. Matters

This Prospectus Supplement does not constitute an offer to sell or a solicitation of an offer to buy any of the Offered Shares in the United States or to, or for the account or benefit of, U.S. persons, as defined in Regulation S under the U.S. Securities Act. The Offered Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

Stock Exchange Listings

The Common Shares are listed on the TSX and NASDAQ. We have applied to list the Offered Shares on the TSX and NASDAQ. Listing of the Offered Shares will be subject to our fulfillment of all of the listing requirements of the TSX and NASDAQ, respectively.

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

Authorized Capital

Our authorized share capital consists of an unlimited number of Common Shares without par value and an unlimited number of preferred shares without par value. As of June 13, 2014, there were 51,921,262 Common Shares issued and outstanding as fully paid and non-assessable and no preferred shares issued and outstanding.

Common Shares

Subject to the rights of the holders of the preferred shares of the Company, holders of the Common Shares are entitled to dividends if, as and when declared by the directors. Holders of the Common Shares are entitled to one vote per Common Share at meetings of shareholders except at meetings at which only holders of a specified class of shares are entitled to vote. Upon liquidation, dissolution or winding-up of the Company, subject to the rights of holders of preferred shares, holders of the Common Shares are to share ratably in the remaining assets of the Company as are distributable to holders of Common Shares. The Common Shares are not subject to call or assessment rights, redemption rights, rights regarding purchase for cancellation or surrender, or any pre-emptive or conversion rights.

Preferred Shares

Our articles provide that, subject to the *Business Corporations Act* (British Columbia), our directors may alter the articles of the Company and authorize the alternation of the Notice of Articles of the Company in order to establish series of preferred shares and to designate the rights and restrictions attached to each series of preferred shares. The rights and restrictions attached to a series of preferred shares may include, without limitation, provisions regarding (i) the payment of dividends, (ii) the consideration to be paid for the shares, (iii) conversion or exchange rights, (iv) rights of redemption or repurchase, (v) restrictions on payment of dividends or the repayment of capital in respect of other shares of the Company, and (vi) voting rights and restrictions. The holders of preferred shares shall be entitled on the liquidation or dissolution of the Company to repayment of capital, together with accrued but unpaid dividends, in priority to the holders of the common shares of the Company.

Further to preferred share subscription agreements described above under "*Our Business – Recent Developments – Series A Preferred Shares*", we have agreed to create and designate a series of preferred shares which will be referred to as the "Series A Preferred Shares" and to issue and sell 10,000 Series A Preferred Shares to the subscribers at a price of $1,000 per Series A Preferred Share. The full rights and restrictions of the Series A Preferred Shares, as agreed upon in the preferred share subscription agreements, are set forth in our material change report dated June 10, 2014, as filed on SEDAR at www.sedar.com. Key material rights and restrictions of the Series A Preferred Shares are summarized below, and this summary is qualified by the full rights and restrictions set forth in the material change report:

Liquidation Preference Amount

CDN$1,000 per Series A Share

Redemption

The Series A Preferred Shares will only be redeemable as follows:

- by the holders of Series A Preferred Shares if we do not complete a "Product Acquisition Transaction" by December 31, 2014, as described below under "Mandatory Redemption",
- by us in the event of a "Change of Control", as described below under "Change of Control Redemption, and
- by us at our option at any time after October 31, 2019 (the "**Optional Redemption Date**"), as described below under "Optional Redemption".

In the event that we do not exercise our option to redeem the Series A Preferred Shares within 90 days of the Optional Redemption Date, the Applicable Dividend Rate for determination of the dividends payable on the Series A Preferred Shares will increase as provided below under "Applicable Dividend Rate".

The Series A Preferred Shares may remain outstanding indefinitely should the Series A Preferred Shares not be redeemed or converted .

Applicable Dividend Rate

The Applicable Dividend Rate for determination of the dividends payable on the Series A Preferred Shares will be as follows:

- 8% per annum from the date of issuance to the Optional Redemption Date,
- LIBOR plus 10% per annum during the one year period following the Optional Redemption Date should we elect not to redeem the Series A Preferred Shares within 90 days of the Optional Redemption Date,
- LIBOR plus 12% per annum during the period following the one year anniversary of the Optional Redemption Date should we elect not to redeem the Series A Preferred Shares during the one year period following the Optional Redemption Date.

Dividends

Holders of the Series A Preferred Shares will be entitled to receive, when and as declared by the Board of Directors of Merus, out of funds legally available for the payment of dividends, cumulative cash dividends at the Applicable Dividend Rate multiplied by the $1,000.00 per share Liquidation Preference, initially equivalent to $80.00 per annum per Series A Preferred Share.

Conversion

Each outstanding Series A Preferred Share shall be convertible at any time at the option of the holder into that number of whole the Common Shares of Merus as is equal to the Liquidation Preference amount of $1,000.00 per share, plus accrued and unpaid dividends, divided by an initial conversion price of $2.20 per share. Each Common Share issuable upon conversion of a Series A Preferred Share is referred to as a "**Conversion Share**".

Mandatory Redemption	If Merus does not complete a "Product Acquisition Transaction", as defined below, by December 31, 2014, at any time, the holders of the Series A Preferred Shares will have the option to cause Merus to redeem the Series A Preferred Shares for cash at a redemption price equal to the Liquidation Preference of $1,000.00 per share, plus all accrued and unpaid dividends thereon (whether or not earned or declared) to, but excluding, the date fixed for redemption, without interest (a "**Mandatory Redemption**"). The holders of the Series A Preferred Shares must exercise their right to cause Merus to complete a Mandatory Redemption by 5 business days' written notice to Merus. Upon receipt of notice of a Mandatory Redemption, Merus will complete the redemption of the Series A Preferred Shares within 15 days of receipt of the notice. "**Product Acquisition Transaction**" means the completion of a pharmaceutical product acquisition with a purchase price of not less than $10,000,000 and includes the execution of a binding agreement for the completion of a Product Acquisition Transaction notwithstanding that the transaction may not have completed by December 31, 2014.
Optional Redemption	On and after the Optional Redemption Date, Merus may, at its option, upon not less than 15 nor more than 30 days' written notice, redeem the Series A Preferred Shares, in whole or in part, at any time or from time to time, for cash at a redemption price equal to the Liquidation Preference of $1,000.00 per share, plus all accrued and unpaid dividends thereon (whether or not earned or declared) to, but excluding, the date fixed for redemption, without interest.
Change of Control Redemption	At any time during which the Series A Preferred Shares are outstanding, in the event of a "**Change of Control**", as defined, of Merus by a person, entity or group Merus (or the entity acquiring Merus) may, at its option, upon not less than 15 nor more than 30 days' written notice, redeem the Series A Preferred Shares, in whole but not in part, within 120 days after the date on which the Change of Control has occurred, for cash at a redemption price equal to (i) the Liquidation Preference of $1,000.00 per share multiplied by 105%, plus (ii) all accrued and unpaid dividends thereon (whether or not earned or declared) to, but excluding, the redemption date, without interest (a "**Change of Control Redemption**").
Liquidation Preference	Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of Merus, then, before any distribution or payment shall be made to the holders of any Common Shares or any other class or series of junior shares in the distribution of assets upon any liquidation, dissolution or winding up of Merus, the holders of Series A Preferred Shares shall be entitled to receive out of the assets of Merus legally available for distribution to shareholders, liquidating distributions in the amount of the Liquidation Preference, or $1,000.00 per share, plus an amount equal to all dividends (whether or not earned or declared) accrued and unpaid thereon to, but excluding, the date of payment.
Ranking	Merus shall not issue any other class or series of preferred shares that rank senior to the Series A Preferred Shares, with respect to the payment of dividends and amounts distributed upon liquidation, dissolution or winding up.
Voting Rights	The Series A Preferred Shares will not have any voting rights, except as prescribed by the BCBCA and as provided below. So long as any shares of Series A Preferred Shares remain outstanding, we will not, without the affirmative vote of the holders of at least two-thirds of the Series A Preferred Shares outstanding at the time, given in person or by proxy, either in writing or at a meeting, authorize or create any class or series of preferred shares of the Company or issue any of such shares that will rank as "parity shares", as defined

above.

Adjustments The number of Common Shares issuable upon conversion of the Series A Preferred Shares and the conversion price will be subject to customary pro rata adjustments to any reflect any consolidation, stock split or other common share reorganization.

Limits on Conversion A holder of Series A Preferred Shares shall not have the right to convert any Series A Preferred Shares to the extent that, after giving effect to such conversion, the holder (together with the holder's affiliates and Persons acting jointly or in concert with such Persons (together, the "**Joint Actors**")) would beneficially own in excess of 19.9% of the number of Common Shares outstanding immediately after giving effect to such conversion on a diluted basis, assuming the conversion of all securities of the Joint Actors which are convertible into Common Shares within sixty (60) days from the proposed date of conversion.

Listing The Series A Preferred Shares will not be listed on any stock exchange.

CONSOLIDATED CAPITALIZATION

There has been no material change in our share capital on a consolidated basis since March 31, 2014, being the date of our most recently filed unaudited consolidated financial statements incorporated by reference in this Prospectus Supplement, other than the issuance of options to purchase an additional 225,000 Common Shares, as described below under "*Prior Sales*".

The following table shows the effect of the Offering on the issued capital of the Company:

Description	**As at March 31, 2014** **Before Giving Effect to the Offering**	**As at March 31, 2014** **After Giving Effect to Offering, assuming No Exercise of the Over-Allotment Option**(1)	**As at March 31, 2014** **After Giving Effect to Offering, assuming Full Exercise of the Over-Allotment Option**(1)
Common Shares	51,921,262	67,921,262	70,321,262
Preferred Shares	Nil (3)	Nil (2)	Nil (2)
Warrants	2,295,950	2,295,950	2,295,950
Options	3,265,000	3,265,000	3,265,000
Convertible Debentures	$8,686,353(3)	$8,686,353(3)	$8,686,353(3)
Shareholders' Equity	$69,074,007	$94,614,007	$98,490,007

(1) Net proceeds, less expected costs of $300,000 for the Offering, are estimated at $25,540,000, if the Over-Allotment Option is not exercised, and approximately $29,416,000, if the Over-Allotment Option is exercised.

(2) Does not reflect the Series A Preferred Shares to be issued pursuant to the preferred share subscription agreements entered into on June 10, 2014. See above under "*Our Business – Recent Developments – Series A Preferred Shares*".

(3) The Convertible Debentures are convertible into an aggregate of 6,666,666 Common Shares.

PRIOR SALES

During the 12 month period before the date of this Prospectus Supplement, we have issued Common Shares and securities convertible into Common Shares as follows:

Date	Price per Security/Exercise Price per Security	Number of Securities
Common Shares		
Issued pursuant to Private Placements		
June 7, 2013	$0.60	7,678,034
Issued pursuant to Public Offerings		
March 25, 2014	$1.70	11,765,000
March 31, 2014	$1.70	1,764,750
Options		
May 13, 2013	$0.51	25,000
July 8, 2013	$0.91	150,000
January 2, 2014	$1.49	75,000
March 4, 2014	$1.80	1,025,000
May 22, 2014	$1.70	75,000
May 26, 2014	$1.69	150,000
Convertible Debt		
September 24, 2013	$1.50	6,666,666

TRADING PRICE AND VOLUME

The Common Shares are traded on the TSX under the symbol "MSL" and on the NASDAQ under the symbol "MSLI".

The following table sets forth the high and low closing prices and the aggregate volume of trading of our Common Shares on the TSX during the 12 month period before the date of this Prospectus Supplement:

Period	High ($)	Low ($)	Volume
2013			
June	0.88	0.60	2,077,651
July	1.20	0.81	4,996,986
August	1.14	0.89	2,409,771
September	1.40	1.02	4,498,535
October	1.60	1.34	7,659,473
November	1.55	1.25	5,490,225
December	1.50	1.21	3,927,813

Period	High ($)	Low ($)	Volume
2014			
January	1.51	1.33	2,730,314
February	1.83	1.39	6,470,383
March	1.93	1.61	7,208,518
April	1.82	1.51	6,040,496
May	1.72	1.58	1,819,239
June 1 to 13	2.23	1.62	10,985,565

The closing price per Common Share on the TSX on June 13, 2014 was $2.23.

The following table sets forth the high and low closing prices and the aggregate volume of trading of the Common Shares on the NASDAQ during the 12 month period before the date of this Prospectus Supplement:

Period	High (US$)	Low (US$)	Volume
2013			
June	0.87	0.62	307,727
July	1.18	0.75	396,389
August	1.09	0.86	292,761
September	1.37	0.98	559,810
October	1.57	1.29	540,758
November	1.48	1.17	300,196
December	1.43	1.15	567,974
2014			
January	1.40	1.24	302,885
February	1.65	1.22	739,061
March	1.75	1.44	244,851
April	1.64	1.38	191,282
May	1.61	1.45	66,909
June 1 to 13	2.05	1.48	578,904

The closing price per Common Share on the NASDAQ on June 13, 2014 was US$2.05.

ELIGIBILITY FOR INVESTMENT

In the opinion of McMillan LLP, counsel to the Company, and Stikeman Elliott LLP, counsel to the Underwriters, based on the current provisions of the Income Tax Act (Canada) (the "**Tax Act**"), the regulations thereunder and the proposals to amend the Tax Act and the regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and provided that the Offered Shares are listed on a "designated stock exchange" for purposes of the Tax Act (which currently includes the TSX), the Offered Shares will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds ("**RRIFs**"), registered disability savings plans, deferred profit sharing plans, registered education savings plans and tax-free savings accounts ("**TFSAs**"), each as defined in the Tax Act.

Notwithstanding the foregoing, if the Offered Shares are "prohibited investments" for a particular RRSP, RRIF, or TFSA for purposes of the Tax Act, the annuitant of the RRSP or RRIF, or the holder of the TFSA as the case may be, will be subject to a penalty tax under the Tax Act. The Offered Shares will generally not be a "prohibited investment" for these purposes unless the annuitant under the RRSP or RRIF or the holder of the TFSA, as applicable, (i) does not deal at arm's length with the Company for purposes of the Tax Act, or (ii) has a "significant interest", as defined in the Tax Act, in the Company.

In addition, the Offered Shares will generally not be a "prohibited investment" if the Offered Shares are "excluded property" for purposes of the prohibited investment rules, for an RRSP, RRIF or TFSA.

Annuitants under an RRSP or RRIF and holders of a TFSA should consult their own tax advisors as to whether the Offered Shares will be a prohibited investment in their particular circumstances.

RISK FACTORS

Prospective purchasers of Offered Shares should consider carefully the risk factors set out herein and contained in and incorporated by reference in the accompanying Prospectus. Discussions of certain risks affecting us in connection with our business are set out under the heading "Risk Factors" in the accompanying Prospectus as well as in the documents incorporated by reference therein and herein, including, specifically, under heading "Risk Factors" in our Annual Report on Form 20-F.

Our strategy to grow our business through acquisitions is subject to risk.

A key component of our strategy to grow our business is to complete additional pharmaceutical product acquisitions to expand our product range and increase our revenues. Accordingly, we will be dependent upon our ability to enter into acquisition and license agreements with pharmaceutical companies that have products that we believe are consistent with our business strategy. Risks in acquiring new pharmaceutical products include: (a) our ability to locate new products that are attractive and complement our business, and (b) our ability to acquire these products at attractive acquisition prices. We also face competition from other pharmaceutical companies in acquiring rights to products, which makes it more difficult to find attractive products on acceptable terms. Accordingly we may not be able to acquire rights to additional products on acceptable terms, if at all. Further, we may not be able to obtain future financing for new product acquisitions on acceptable terms, if at all. Our inability to complete acquisitions of additional branded products could limit the overall growth of our business. Furthermore, even if we are able to obtain rights to pharmaceutical products, we 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 our current products and our ability to compete favourably in those product categories may be limited.

We may not be able to secure additional financing which may impair our ability to complete future acquisitions.

There can be no assurance that we will be able to raise the additional funding that we need to carry out our business objectives and to complete product acquisitions. The development of our business depends upon prevailing capital market conditions, our business performance and our ability to obtain financing through debt financing, equity financing or other means. There is no assurance that we will be successful in obtaining the financing we require as and when needed or at all in order to complete future acquisitions. If additional financing is raised by the issuance of shares from treasury, control of our company may change and shareholders may suffer additional dilution.

There is no assurance that the Series A Preferred Share financing will complete

While we have entered into subscription agreements to sell an aggregate of $10 million Series A Preferred Shares, the closing of this financing is subject to certain conditions to closing. If we fail to satisfy these conditions to closing, then the investor may exercise its rights under the subscription agreements to not complete its investment. Our inability to complete this financing would result in us having less funds available to complete future acquisitions and for general working capital.

There is no assurance that the acquisition financing with Dacha will complete

While we have entered into the Letter Agreement with Dacha to raise, in aggregate, new financing of a minimum of $11 million through the acquisition of Newco, less the amount of Dacha's participation in the Offering. This acquisition is subject to certain conditions in favour of each of us and Dacha and there is no assurance that either our conditions to closing will be satisfied or Dacha's conditions to closing, including the approval of its shareholders, will be satisfied. Further, we and Dacha each have the right to terminate if the Acquisition Agreement is not entered into by June 30, 2014 or if the acquisition is not completed by August 31, 2014. Accordingly, there is no assurance that the financing acquisition transaction will be completed. Our inability to complete this financing would result in us having less funds available to complete future acquisitions and for general working capital. Presuming that the Offering is completed and Dacha purchases the $5.0 million of the Offered Shares that it has agreed to purchase, our inability to complete the Newco acquisition will only impact our available funds by approximately $6.0 million.

There is no assurance that we will be able to defend the Apotex Notice of Allegation

We have received notification from Apotex that it has filed with Health Canada an ANDS seeking market approval for a generic version of Enablex® for the Canadian marketplace. In connection with this filing, we have received Notices of Allegation from Apotex against the Enablex® patents listed on the Canadian patent register which expire in August of 2016 and beyond. The NOAs were issued under the Canada Patented Medicines (Notice of Compliance) Regulations. Under the Regulations, we are entitled to apply to Federal Court for an order preventing Health Canada from granting market authorization to Apotex in respect of the ANDS until after the expiration of the applicable patents. However, there is no assurance that we will be successful in obtaining such an order of the Federal Court preventing Health Canada from granting market authorization to Apotex prior to the expiry of Merus' patents listed on the patent register. If we are not successful, then we may experience a reduction in our anticipated revenues from Enablex resulting from a combination of decreased pricing resulting from the presence of a generic competitor, and decreased sales volumes resulting from market competition from the generic competitor.

The trading price of our Common Shares has been, and may continue to be, subject to large fluctuations.

Our Common Shares are listed on the TSX and NASDAQ. The trading price of our Common Shares has been, and may continue to be, subject to large fluctuations and, therefore, the value of the Offered Shares may also fluctuate significantly, which may result in losses to investors.

We have discretion with respect to the use of proceeds from this Offering.

Management will have broad discretion with respect to the use of the net proceeds from this Offering and investors will be relying on the judgment of management regarding the application of these proceeds. At the date of this Prospectus Supplement, we intend to use the net proceeds from this Offering as described under the heading "Use of Proceeds". However, our needs may change as our business and the industry we address evolve. As a result, the proceeds to be received in this Offering may be used in a manner significantly different from our current expectations. The failure by management to apply these funds effectively could have a material adverse effect on our business.

We may sell or issue additional Common Shares in the future, causing dilution of your equity interest.

If we require additional funds in the future and raise such funds by issuing additional equity securities, especially at prices lower than the price of the Offered Shares under this Prospectus Supplement, such financing may dilute the equity interests of our current shareholders, including purchasers who acquire Offered Shares pursuant to this Prospectus Supplement.

LEGAL MATTERS AND INTEREST OF EXPERTS

Certain legal matters relating to the Offering will be passed upon on our behalf by McMillan LLP and on behalf of the Underwriters by Stikeman Elliott LLP.

As at the date hereof, the partners and associates of McMillan LLP, as a group, own, directly or indirectly, less than 1% of the Common Shares of the Company. As at the date hereof, the partners and associates of Stikeman Elliott LLP, as a group, own, directly or indirectly, less than 1% of the Common Shares of the Company. Our auditors, Deloitte LLP, have advised us that they are independent within the meaning of Rule 3520 of the Public Company Accounting Oversight Board, Auditor Independence and the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

PURCHASERS' STATUTORY AND CONTRACTUAL RIGHTS

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies of rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. Purchasers should refer to any applicable provisions of the securities legislation of their province for the particulars of these rights or consult with a legal advisor.

CERTIFICATE OF THE COMPANY

Date: June 13, 2014

The short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

By: (Signed) ELIE FARAH Chief Executive Officer	By: (Signed) ANDREW PATIENT Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) ROBERT POLLOCK Director	By: (Signed) DAVID GUEBERT Director

CERTIFICATE OF THE UNDERWRITERS

Date: June 13, 2014

To the best of our knowledge, information and belief, the short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

CANACCORD GENUITY CORP.

By: (Signed) STEVE WINOKUR
Title: Managing Director

CLARUS SECURITIES INC.

By: (Signed) MARK PAVAN
Title: Managing Director,
Investment Banking

CORMARK SECURITIES INC.

By: (Signed) CHRIS SHAW
Title: Director,
Investment Banking

PARADIGM CAPITAL INC.

By: (Signed) IAN M. H. JOSEPH
Title: President

TD SECURITIES INC.

By: (Signed) RYAN QUIRT
Title: Vice-President, Investment
Banking

EURO PACIFIC CANADA INC.

By: (Signed) ROB FURSE
Title: President

This short form base shelf prospectus has been filed under legislation in the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

Information has been incorporated by reference in this short form base shelf prospectus from documents filed with the securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of the Corporation (as defined below) at its head office at 100 Wellington St. West Suite 2110, Toronto, Canada M5K 1H1 (Telephone: 416 593-3701), and are also available electronically under the SEDAR profile of the Corporation at www.sedar.com.

This short form base shelf prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereby have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the "**U.S. Securities Act**"), and may not be offered or sold in any state, district or commonwealth of the United States of America, its territories or possessions (the "**United States**") and, subject to certain exceptions, may not be offered or sold, directly or indirectly, within the United States or to or for the account or benefit of any "**U.S. Person**" (as defined in Regulation S made under the U.S. Securities Act). This short form base shelf prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States or to or for the account or benefit of a U.S. Person or person within the United States. See "*Plan of Distribution*".

MERUS LABS

SHORT FORM BASE SHELF PROSPECTUS

New Issue **October 3, 2013**

MERUS LABS INTERNATIONAL INC.

$80,000,000

Debt Securities
Common Shares
Subscription Receipts
Warrants
Preferred Shares
Units

Merus Labs International Inc. (the "**Corporation**") may offer for sale, in any combination, its debt securities, common shares, warrants, preferred shares, subscription receipts and units in one or more offerings up to an aggregate offering price of $80,000,000, or the equivalent thereof at the time of issue, in one or more foreign currencies or composite currencies during the 25 month period that this short form base shelf prospectus (the "**Prospectus**"), including amendments hereto, remains valid. Debt securities, common shares, warrants, preferred shares, subscription receipts and units may be offered at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying shelf prospectus supplement (a "**Prospectus Supplement**").

There is no minimum amount of funds that must be raised under this offering. This means that the Corporation could complete this offering after raising only a small portion of the offering amount set out above.

All shelf information permitted under applicable laws to be omitted from this Prospectus will be contained in one or more Prospectus Supplements that will be delivered to prospective purchasers together with this Prospectus. A Prospectus Supplement containing the specific terms of any offered securities, required disclosure of earnings coverage ratios, if applicable, and other information relating to the offered securities, will be delivered to prospective purchasers of such offered securities, together with this Prospectus, and will be deemed to be incorporated by reference into this Prospectus for the purpose of securities legislation as of the date of such Prospectus Supplement and only for the purpose of the offering of such offered securities.

The specific terms of any securities offered will be described in a Prospectus Supplement including, where applicable: (i) in the case of common shares, the number of shares offered, the offering price and any other specific terms; (ii) in the case of preferred shares, the number of shares offered, the offering price, the rights and restrictions of the preferred shares, and any other specific terms; (iii) in the case of debt securities, the designation of the debt securities, any limit on the aggregate principal amount of the debt securities, whether payment on the debt securities will be senior or subordinated to its other liabilities and obligations, whether the debt securities will bear interest, the interest rate or method of determining the interest rates, whether any conversion or exchange rates will be attached to the debt securities, whether the Corporation may redeem the debt securities at its option and any other specific terms; (iv) in the case of warrants, the designation, number and terms of the common shares or debt securities purchasable upon exercise of the warrants, any procedures that will result in the adjustment of these numbers, the exercise price, dates and periods of exercise, and the currency in which the warrants are issued and any other specific terms; (v) in the case of units, the designation and terms of the units and of the securities comprising the units and any other specific terms; and (vi) in the case of subscription receipts, the terms by which the subscription receipts will convert into the underlying securities and the terms of the underlying securities. The Prospectus Supplement may include specific variable terms pertaining to the securities that are not within the alternatives and parameters described in this Prospectus.

The Corporation will not offer warrants that may not reasonably be regarded as incidental to the offering as a whole ("**stand-alone warrants**") or units that include stand-alone warrants for sale separately to any member of the public in Canada unless the offering is in connection with and forms part of the consideration for an acquisition or merger transaction or unless the Prospectus Supplement containing the specific terms of the stand-alone warrants or units that include stand-alone warrants, to be offered separately, is first approved for filing by the securities commissions or similar regulatory authorities in each of the Provinces of Canada in which the stand-alone warrants or units that include stand-alone warrants, as the case may be, will be offered for sale.

This Prospectus does not qualify for issuance debt securities in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other formula, or any combination or basket of the foregoing items. For greater certainty, this Prospectus may qualify for issuance debt securities in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to published rates of a central banking authority or one or more financial institutions, such as prime rate or bankers' acceptance rate, or to recognized market benchmark interest rates such as LIBOR, EURIBOR or a U.S. Federal Funds Rate.

The outstanding common shares are listed and posted for trading on the Toronto Stock Exchange ("**TSX**") under the symbol "MSL" and on NASDAQ under the symbol "MSLI". On October 1, 2013, the closing price for the common shares on the TSX was $1.48 and on NASDAQ was US$1.45.

Other than the listing of the common shares on the TSX and NASDAQ and as provided above, there is no market through which the securities may be sold and purchasers may not be able to resell securities purchased under this Prospectus and the applicable Prospectus Supplement. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See "Risk Factors".

The Corporation may sell securities to or through underwriters or dealers and may also offer and sell the securities to one or more purchasers directly or through agents. The Prospectus Supplement relating to a particular offering of securities will identify each underwriter, dealer or agent engaged in connection with the offering and sale of the securities and will set forth the method of distribution of such securities, including, to the extent applicable, the proceeds to the Corporation and any fees, discounts or other compensation payable to such underwriter, dealer or agent and any other material terms of the plan of distribution. No underwriter has been involved in the preparation of this Prospectus or performed any review of the contents of this Prospectus.

Investors should rely only on the information contained or incorporated by reference in this Prospectus and any applicable Prospectus Supplement. The Corporation has not authorized anyone to provide investors with different or additional information. If anyone provides investors with different or additional information, investors should not rely on it. The Corporation is not making an offer to sell or seeking an offer to buy the securities in any jurisdiction where the offer or sale is not permitted. Investors should assume that the information contained in the Prospectus and any applicable Prospectus Supplement is accurate only as of the date on the front of those documents and that information contained in any document incorporated by reference is accurate only as of the date of that document, regardless of the time of delivery of the Prospectus

The Corporation's head office is located at 100 Wellington St. West Suite 2110, Toronto, Canada M5K 1H1. The Corporation's registered office is located at Suite 800, 885 West Georgia Street, Vancouver, British Columbia, Canada V6C 3H1.

References herein to "Merus" or the "Corporation" also include its subsidiary entities, as the context requires or permits.

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CURRENCY PRESENTATION

Unless otherwise indicated, all dollar amounts referred to herein are in Canadian dollars. All references to $ are to Canadian dollars and all references to US$ are to United States dollars.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus incorporates by reference information from documents filed with securities commissions or other similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Corporation at 100 Wellington St. West Suite 2110, Toronto, Canada M5K 1H1 (Telephone: 416 593-3701). These documents are also available through the Internet on the System for Electronic Document Analysis and Retrieval, which can be accessed online under the profile of the Corporation at www.sedar.com.

Except to the extent that their contents are modified or superseded by a statement contained in this Prospectus or in any other subsequently filed document that is also incorporated by reference in this Prospectus, the following documents, filed with the applicable securities regulatory authorities in Canada, are specifically incorporated by reference herein and form an integral part of this Prospectus:

1. The Corporation's Material Change Report filed on SEDAR on September 30, 2013, which describes the Corporation's refinancing of its debt facilities;

2. The Corporation's Material Change Report filed on SEDAR on August 28, 2013, which describes the Corporation's sale of FACTIVE® for approximately US$3.4 million;

3. The Corporation's Consolidated Financial Statements for the three and nine months ended June 30, 2013 and 2012 filed on SEDAR on August 13, 2013;

4. The Corporation's Management's Discussion and Analysis for the three and nine months ended June 30, 2013 and 2012 filed on SEDAR on August 13, 2013;

5. The Corporation's Material Change Report filed on SEDAR on July 18, 2013, which describes a change in the board of directors of the Corporation;

6. The Corporation's Material Change Report filed on SEDAR on June 17, 2013, which describes the completion of a private placement;

7. The Corporation's Management Information Circular dated February 25, 2013 relating to the annual general meeting of the Corporation;

8. The Corporation's Annual Report on Form 20-F filed on January 2, 2013 for the year ended September 30, 2012;

9. The Corporation's Consolidated Audited Financial Statements for the year ended September 30, 2012 and 2011; and

10. The Corporation's Management Discussion and Analysis for the year ended September 30, 2012 dated December 31, 2012.

A reference herein to this Prospectus also means any and all documents incorporated by reference or deemed to be incorporated by reference in this Prospectus. Any document of the types referred to in the numbered paragraphs above, including any material change reports (excluding confidential material change reports), any business acquisition reports, the content of any news release disclosing financial information for a period more recent than the period for which financial statements are required and certain other disclosure documents as set forth in Item 11.1 of Form 44-101F1 of National Instrument 44-101 – *Short Form Prospectus Distributions* of the Canadian Securities Administrators that are filed by the Corporation with the securities commissions or similar regulatory authorities in Canada after the date of the Prospectus and prior to the termination of any offering shall be deemed to be incorporated by reference in this Prospectus.

Any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Prospectus, to the extent that a statement contained herein, or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any statement so modified or superseded shall not constitute a part of this Prospectus, except as so modified or superseded. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of such a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This Prospectus 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", "believe", "could", "potential", "enable", "plan", "continue", "contemplate", "pro forma" or other comparable terminology. Forward-looking information presented in such statements or disclosures may, among other things, include: the use of proceeds from any offering; 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 Prospectus in connection with the statements or disclosure containing the forward-looking information.

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

- the receipt of all required regulatory approvals, including those of the relevant stock exchanges, to complete the offering;
- 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 Prospectus 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 Merus' products by provincial drug benefit formularies, hospital formularies and pharmacies, physicians and patients in the marketplace;
- Merus' ability to successfully market and sell its products;
- delays or setbacks with respect to governmental approvals, or manufacturing or commercial activities;
- Merus' ability to service existing debt;
- 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 Merus' products;
- the ability to source, 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 inability to make royalty payments as they become due;
- 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 Merus' products;
- core patent protection for Merus' initial portfolio has expired or will expire in the future, which could result in significant competition from generic products resulting in a significant reduction in sales;
- 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 Merus or its interests;
- the risk that Merus 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 Merus 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 International Financial Reporting Standards as adopted by the Financial Accounting Standards Board ("**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 the reader 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 Prospectus.

BUSINESS OF THE CORPORATION

Corporate History

The Corporation was originally formed on December 19, 2011 by the amalgamation of Merus Labs International Inc. ("**Old Merus**") and Envoy Capital Group Inc. ("**Envoy**") pursuant to an arrangement agreement dated November 10, 2011 pursuant to the *Business Corporations Act* (British Columbia).

Envoy was incorporated under the laws of the Province of British Columbia as "Potential Mines Ltd." in December 1973 and was continued under the laws of the Province of Ontario in December 1997. At Envoy's annual general meeting held on March 30, 2007, the shareholders voted to amend Envoy's articles of incorporation by changing its name to Envoy Capital Group Inc. In connection with the amalgamation of Envoy and Old Merus, Envoy continued from the jurisdiction of the Province of Ontario to the Province of British Columbia on December 16, 2011.

Old Merus was incorporated under the laws of the Province of British Columbia on November 9, 2009 under the name 0865346 B.C. Ltd. On January 22, 2010, Merus changed its name to Merus Labs International Inc. in connection with a plan of arrangement with Range Gold Corp. and Merus Labs Inc. ("**Merus Labs**").

On October 1, 2012, the Corporation amalgamated with Merus Labs, a wholly owned subsidiary of the Corporation continuing under the name "Merus Labs International Inc."

General Business

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 thresholds for large pharma.

Once a product is acquired, Merus' 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 is the United States, Canada, and Europe. 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 while still maintaining maximum flexibility for Merus.

Business Model for Acquisition of Diversified Legacy Products

Merus believes that it has a unique strategy in seeking to acquire legacy products primarily for the purpose of generating a stream of stable revenues and cash flow. Merus believes that this strategy will provide it 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 its approach to product acquisition and its return objectives provide Merus with a competitive advantage in acquiring products as Merus can 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' plan is 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 achieves 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, its 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 will 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, 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. In addition, since Merus is not focused on specific therapeutic classes, it will have the ability to purchase diversified products and product bundles.

Changes in the Competitive Landscape

In December 2011, Health Canada granted a notice of compliance ("**NOC**") to Pharmaceutical Partners of Canada Inc. ("**PPC**"), which grants PPC the authority to market their generic version of Vancocin capsules in the Canadian market. In July 2012, PPC confirmed its intentions to market a generic vancomycin capsule product and in November 2012 gained reimbursement listing status in a number of provinces. The entry of this generic product has had a material adverse effect on the sales of Merus' branded Vancocin capsules and other future market entrants may also have a material adverse effect on sales.

In June 2012, Optimer Pharmaceuticals, Inc. (“**Optimer**”) received approval from Health Canada for its product: DIFICID®. DIFICID® is another method for the treatment of Clostridium Difficile (“**C. Difficile**”) infection. Optimer asserts that DIFICID® has a lower recurrence rate than Vancocin®. If Optimer is able to demonstrate that DIFICID® is preferable to Vancocin®, the business of Merus would be adversely affected.

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 is currently being sold in Canada at a much higher price than that of Oral Vancocin®.

Description of Products and Services

Merus currently has products in the area of urology/women's health, and anti-infectives.

Urology / Women's Health

Overactive Bladder

Overactive bladder occurs when a large muscle in the bladder known as the detrusor contracts more often than normal. This causes a person to feel a sudden and sometimes overwhelming urge to urinate even when the bladder isn’t full. Urgency, incontinence, and urinary frequency can also be caused by urinary-tract infections, kidney stones, prostate infection or enlargement, or medicine taken to treat other conditions such as high blood pressure. Though not life-threatening, overactive bladder is inconvenient, can be embarrassing, and can markedly reduce quality of life.

According to an article published in the Reviews of Urology by the Department of Urology, New York University School of Medicine, in women, moderate and severe bother have a prevalence ranging from about 3% to 17%. Severe incontinence has a low prevalence in young women, but rapidly increases at ages 70 through 80. In men, the prevalence of incontinence is much lower than in women, about 3% to 11% overall, with urge incontinence accounting for 40% to 80% of all male patients. Incontinence in men also increases with age, but severe incontinence in 70- to 80-year-old men is about half of that in women.

Decision Resources, an advisory firm for pharmaceutical and healthcare issues, finds that although more than 50% of people with overactive bladder in the world’s major pharmaceutical markets are undiagnosed, the sizeable prevalent population fuels significant sales for the indication. As a result, the overactive bladder drug market will likely increase from approximately $3 billion in 2009 to nearly $4 billion in 2019 in the United States, France, Germany, Italy, Spain, United Kingdom and Japan.

Emselex®/Enablex®

In 2003, Novartis Pharma AG (“**Novartis**”) acquired the Emselex®/Enablex® (darifenacin) product from Pfizer Inc. and the product was approved for sale in Europe and the United States in 2004. As the global sales of Emselex®/Enablex® were below the critical sales threshold for Novartis, the Corporation decided to reduce its marketing and sales efforts in the majority of territories where the product was marketed. In 2010, Novartis divested the product rights for the United States to Warner Chilcott Plc.

In July 2012, the Corporation acquired from Novartis, the Canadian and European rights (excluding France, Spain and Italy) to manufacture, market, and sell the branded prescription medicine product Emselex®/Enablex® (darifenacin) extended release tablets. Darifenacin is a muscarinic antagonist indicated for the treatment of overactive bladder with symptoms of urge urinary incontinence, urgency and frequency. The product’s specific mechanism of action is the blocking of the M3 muscarinic receptor, which is primarily responsible for bladder muscle contractions. As overactive bladder is a chronic condition, Emselex®/Enablex® is prescribed as a medication to be taken once daily and the extended release tablet format is produced in 7.5mg and 15mg dosage strengths.

As Merus has acquired the product rights in a number of European countries in which the product is not being actively marketed, the Corporation has partnered with local marketing and sales organizations with the goal of incrementally increasing sales in those regions.

In January 2013, the Corporation entered into promotion and distribution agreements with selected partners in certain European countries for the Emselex®/Enablex® product. The partner companies and corresponding territories are as follows: POA Pharma Scandinavia AB (Nordic countries defined collectively as Denmark, Norway, Sweden, Finland, and Iceland), Proximum d.o.o (Croatia), and SPCare Lda (Portugal). Under the terms of the agreements, the partner companies have been granted exclusive rights to distribute, market, and sell Emselex®/Enablex® in their respective territories. Although the financial terms of the agreements have not been disclosed, the general structure of the arrangements are such that the partners contribute the local marketing and sales resources in exchange for a portion of the incremental net sales generated above the current annual baseline net sales. The territories covered by these new distribution and promotion agreements did not have any substantial marketing and sales resources devoted to the product in recent years. For the year 2012, the newly partnered territories had net sales of approximately US$4.5 million.

In February 2013, the Corporation entered into promotion and distribution agreements with partners in Canada and Slovenia for the Corporation's Emselex®/Enablex® product. The partner companies and corresponding territories are as follows: NorrizonRx Sales and Marketing Group Inc. (Canada) and Proksimum Pharma d.o.o. (Slovenia). Under the terms of the agreements, the partner companies have been granted exclusive rights to market and sell Emselex®/Enablex® in their respective territories. The financial terms of the agreements have not been disclosed. For the year 2012, the newly partnered territories had net sales of approximately US$4.5 million.

Merus has entered into these promotion and distribution agreements with partner companies that have a wealth of knowledge and expertise in their local markets. Emselex®/Enablex® is a major growth driver for the Corporation and these new collaborations will enable Merus to broaden its reach in countries which were previously underserved in terms of marketing and sales efforts.

On April 16, 2013, a wholly owned subsidiary of Merus received approval from Health Canada with regards to the marketing authorization (NOC) transfer of Emselex®/Enablex® from Novartis. Merus has re-launched the product in Canada and is devoting significant sales and marketing resources to these activities. Merus has entered into an agreement with a European contract manufacturing group to manufacture Emselex®/Enablex® for sale and distribution in Europe and Canada. The operational phase of the manufacturing tech transfer began in May 2013. During the operational transition period Novartis will continue to manage the manufacturing of Emselex®/Enablex®.

On August 20, 2013, Merus announced that through its wholly owned subsidiaries, Merus Labs B.V and Merus Labs Luxco S.à R.L., it had entered into promotion and distribution agreements with selected partners in certain European countries. The partner companies and corresponding territories are as follows: Merz Pharma (Schweiz) AG (Switzerland), Arriani Pharmaceuticals SA (Greece), Vivax Pharmaceuticals s.r.o (Slovakia) and Eurocept B.V (Belgium). Under the terms of the agreements, the partner companies have been granted exclusive rights to distribute, market, and sell Emselex®/Enablex® in their respective territories. The general structure of the arrangements are such that the partners contribute the local marketing and sales resources in exchange for a portion of the incremental net sales generated above the current annual baseline net sales. Other than Switzerland for which Merz had a previous Emselex®/Enablex® marketing and sales arrangement with Novartis, the territories covered by these new distribution and promotion agreements did not have any substantial marketing and sales resources devoted to the product in recent years.

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 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 the right to sell 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 and Company. 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 (the "**FDA**"). Eli Lilly and Company 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 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.

Wound Care Franchise

In September 2010, Old Merus entered into a definitive agreement with Innocoll Pharmaceuticals Limited to license, on an exclusive basis, three advanced wound care products for the Canadian market. As of the date of this Prospectus, the Corporation has not launched any of its wound care products and has limited visibility with respect to the sales of this product line due to a refocusing of management priorities.

CONSOLIDATED CAPITALIZATION

Except as disclosed below, there have been no material changes in the Corporation's share and loan capital on a consolidated basis since June 30, 2013.

The Corporation refinanced its debt obligation previously provided by PDL BioPharma, Inc. ("**PDL**"), which had an outstanding amount owing of US$39.5 million, by closing on two new debt instruments: a $30 million senior credit facility with the Royal Bank of Canada ("**RBC**") and the Bank of Montreal ("**BMO**"), and a $10 million convertible note debenture with a large Canadian institutional investor.

On September 23, 2013, effective September 20, 2013, the Corporation entered into a credit agreement (the "**Credit Agreement**") with RBC, as a lender and administrative agent, and BMO, as a lender.

Pursuant to the Credit Agreement, the $30 million senior debt is secured by all of the assets of the Corporation and can be drawn via a number of availment options either on a fixed or variable interest rate basis. The Corporation has elected a variable rate option and based on the current prime rate will pay 6.5% per annum. The Corporation must make the following repayments:

- $700,000 on the last day of each month commencing on October 31, 2013 and continuing thereafter to and including September 30, 2015; and

- $1,100,000 on the last day of each month commencing on October 31, 2015 and continuing thereafter to and including September 30, 2016.

These payments may be supplemented by additional quarterly payments based on the Corporation's Excess Cash Flow (as defined in the Credit Agreement). The Corporation also agreed to customary positive and negative covenants, including a restriction on certain investments, financial covenants, and reporting requirements. In addition to the $30 million term loan, the Corporation has access to a $2 million revolving operating line.

Concurrent with the closing of the Credit Agreement, the Corporation issued a $10 million unsecured convertible debenture (the "**Convertible Debenture**") with an interest rate of 8% per annum, which matures on September 20, 2018. At any time at the option of the holder, the principal amount of the Convertible Debenture may be convertible into common shares at a price of $1.50 per common share and the interest of the Convertible Debenture may be convertible into common shares at a price the greater of: (1) the Market Price (as defined by the policies of the TSX); and (2) $1.50. If the trading price of the common shares closes for 20 consecutive trading days at $2.30 or greater, the Corporation has the option to force conversion of the entire convertible debenture into common shares.

As at September 20, 2013 Merus had net debt of $34 million comprised of $40 million in senior and unsecured debt net of approximately $6 million in cash and cash equivalents. As of September 20, 2013, the Corporation's consolidated non-cash working capital balance was approximately $6.1 million. As of September 20, 2013, the Corporation's monthly cash expenditures, excluding any debt repayments but including interest, are approximately $1.1 million and monthly revenue averages approximately $2.4 million.

The Corporation anticipates that its current level of cash, along with its other resources, would be sufficient to fund the day-to-day operations of the Corporation. Further, the Corporation's current cash flow is sufficient to meet its monthly debt service costs (i.e. interest and principal payments under the Credit Agreement).

USE OF PROCEEDS

Unless the Corporation states otherwise in the applicable Prospectus Supplement, the Corporation will use the net proceeds from the sale of the securities that may be offered by this Prospectus and the applicable Prospectus Supplement for general corporate purposes, repayment of existing debt facilities, and acquisitions of, or investments in, pharmaceutical products that complement the Corporation's business. The Corporation has no present definitive commitments to enter into any material acquisitions. The Corporation will determine the allocation of the net proceeds of an offering of securities to a specific purpose, if any, at the time of the offering and will describe such allocation in the applicable Prospectus Supplement. If a material part of the net proceeds is to be used to repay indebtedness, the Corporation will set forth the interest rate and maturity of such indebtedness to be repaid in a Prospectus Supplement.

PLAN OF DISTRIBUTION

The Corporation may designate agents to solicit purchases for the period of their appointment to sell securities on a continuing basis. Unless otherwise indicated in the relevant Prospectus Supplement, any such agent will be acting on a reasonable best efforts basis for the period of its appointment. If underwriters are used for a sale of securities, the securities will be acquired by the underwriters for their own account. The underwriters may resell the securities in one or more transactions, including negotiated transactions at a fixed public offering price or at varying prices determined at the time of sale. Unless otherwise indicated in the relevant Prospectus Supplement, the obligations of the underwriters to purchase the securities will be subject to various conditions precedent and the underwriters will be obligated to purchase all the relevant securities offered if any of such securities are purchased. Any public offering price and any discounts or concessions allowed or re-allowed or paid to dealers may be changed from time to time.

Any offering of debt securities, warrants, preferred shares, subscription receipts or units will be a new issue of securities with no established trading market. Unless otherwise specified in the applicable Prospectus Supplement, the debt securities, warrants, preferred shares, subscription receipts or units will not be listed on any securities exchange. Unless otherwise specified in the applicable Prospectus Supplement, there is no market through which the debt securities, warrants, preferred shares, subscription receipts or units may be sold and purchasers may not be able to resell debt securities, warrants, preferred shares, subscription receipts or units purchased under this Prospectus and any relevant Prospectus Supplement. This may affect the pricing of the debt securities, warrants, preferred shares, subscription receipts or units in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. Certain dealers may make a market in the debt securities, warrants, preferred shares, subscription receipts or units but there is no assurance that such will occur.

Underwriters and agents may, from time to time, purchase and sell the securities described in this Prospectus and the relevant Prospectus Supplement in the secondary market, but are not obligated to do so. No assurance can be given that there will be a secondary market for the securities or liquidity on the secondary market if one develops. From time to time, underwriters and agents may make a market in the securities. Only underwriters named in a Prospectus Supplement are deemed to be underwriters in connection with the securities offered thereby, and any discounts or commissions they receive from the Corporation and any profit on their resale may be deemed to be underwriting discounts and commissions. The Corporation may have agreements with the underwriters, agents and dealers to indemnify them against certain civil liabilities, including liabilities under Canadian securities legislation, or to contribute to payments that they may be required to make in respect thereof.

Underwriters, agents and dealers may engage in transactions with or perform services for it in the ordinary course of their businesses. In connection with any offering of securities, the underwriters or agents may over-allot or effect transactions which stabilize or maintain the market price of the securities offered at a higher level than that which might exist in the open market. These transactions may be commenced, interrupted or discontinued at any time.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities in the United States or to, or for the account or benefit of, any U.S. person or any person in the United States. The securities have not been and will not be registered under the U.S. Securities Act, or any securities laws of any state of the United States, and may not be offered or sold within the United States, or to or for the account or benefit of any U.S. person or any person in the United States, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. "United States" and "U.S. person" are as defined in Regulation S under the U.S. Securities Act.

In addition, until 40 days after the commencement of any offering of the securities, an offer or sale of securities within the Unites States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the U.S. Securities Act.

DESCRIPTION OF SECURITIES DISTRIBUTED

Common Shares

Holders of the Corporation's common shares (the "**Common Shares**") are entitled to receive notice of any meetings of shareholders of the Corporation and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election.

Holders of Common Shares are entitled to receive on a pro rata basis such dividends on the Common Shares, if any, as and when declared by the Corporation's board of directors at its discretion from funds legally available therefor, and, upon the liquidation, dissolution or winding up of the Corporation, are entitled to receive on a pro rata basis the net assets of the Corporation after payment of debts and other liabilities, in each case subject to the rights and restrictions attaching to any series of the Preferred Shares. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions.

As of September 30, 2013, there were 38,391,512 Common Shares outstanding.

Preferred Shares

The Corporation is authorized to issue an unlimited number of Common Shares without par value and an unlimited number of preferred shares (the "**Preferred Shares**") without par value. The Preferred Shares may include one or more series and, subject to the *Business Corporations Act* (British Columbia), the directors of the Corporation may, by resolution, if none of the shares of any particular series are issued, alter the Articles of the Corporation and authorize the alteration of the Notice of Articles of the Corporation, as the case may be, to do one or more of the following:

- determine the maximum number of shares of that series that the Corporation is authorized to issue, determine that there is no such maximum number, or alter any such determination;
- create an identifying name for the shares of that series, or alter any such identifying name; and
- attach special rights or restrictions to the shares of that series, or alter any such special rights or restrictions.

The rights and privileges of each series of Preferred Shares would be established by the Corporation's board of directors prior to their issuance. In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the holders of each series of Preferred Shares would be entitled, in priority to the holders of Common Shares and any other shares of the Corporation ranking junior to the Preferred Shares, on a distribution of capital, to be paid ratably with the holders of each other series of Preferred Shares the amount, if any, specified as being payable preferentially to the holders of such series on a distribution of capital of the Corporation.

The holders of each series of Preferred Shares would also be entitled, in priority to the holders of Common Shares and any other shares of the Corporation ranking junior to the Preferred Shares with respect to the payment of cumulative dividends, to be paid ratably with the holders of each other series of Preferred Shares, the amount of cumulative dividends, if any, specified as being payable preferentially to the holders of such series.

As of September 30, 2013, there were no Preferred Shares outstanding.

Debt Securities

The Corporation may issue debt securities (the "**Debt Securities**"), including convertible debt securities, from time to time in one or more series. The specific terms relating to any of its Debt Securities that the Corporation offers will be described in a Prospectus Supplement. You should read the applicable Prospectus Supplement for the terms of the Debt Securities offered.

Debt Securities that are publicly offered may be governed by a document called an "indenture". An indenture is a contract between a financial institution, acting on your behalf as trustee of the Debt Securities offered, and the Corporation. The trustee has two main roles. First, subject to some limitations on the extent to which the trustee can act on your behalf, the trustee can enforce your rights against the Corporation if the Corporation defaults on its obligations under the indenture. Second, the trustee performs certain administrative duties for the Corporation. The specific terms relating to any series of its Debt Securities that the Corporation offers will be described in a Prospectus Supplement. You should read the applicable Prospectus Supplement for the terms of the series of Debt Securities offered. The terms of the Debt Securities described in such Prospectus Supplement will be set forth in the indenture, if any, or in one or more resolutions of the Corporation's board of directors, or pursuant to authority granted by one or more resolutions of the Corporation's board of directors, or established pursuant to one or more supplemental indentures and may include the provisions described below, as applicable to the series of Debt Securities offered thereby. The Corporation may issue Debt Securities from time to time in separate series. The Corporation may issue Debt Securities and incur additional indebtedness other than through the offering of Debt Securities pursuant to this Prospectus and the applicable Prospectus Supplement.

The Prospectus Supplement for any series of Debt Securities the Corporation offers will describe the specific terms of the Debt Securities and may include, but is not limited to, any of the following: the title of the Debt Securities; any limit on the aggregate principal amount of the Debt Securities; the percentage of principal amount at which the Debt Securities will be issued; whether payment on the Debt Securities will be senior or subordinated to its other liabilities or obligations; whether the payment of the Debt Securities will be guaranteed by any other person; the dates on which the Corporation may issue the Debt Securities and the date or dates on which the Corporation will pay the principal and any premium on the Debt Securities and the portion (if less than the principal amount) of Debt Securities to be payable upon a declaration of acceleration of maturity; whether the Debt Securities will bear interest, the interest rate, which may be fixed or variable, or the method of determining the interest rate, the date from which interest will accrue, the dates on which the Corporation will pay interest and the record dates for interest payments; the place or places the Corporation will pay principal, any premium and interest and the place or places where Debt Securities can be presented for registration of transfer or exchange; whether and under what circumstances the Corporation will be required to pay any additional amounts for withholding or deduction for taxes with respect to the Debt Securities, and whether the Corporation will have the option to redeem the Debt Securities rather than pay any such additional amounts; whether the Corporation will be obligated to redeem or repurchase the Debt Securities pursuant to any sinking or purchase fund or other provisions, or at the option of a holder; whether the Corporation may redeem the Debt Securities at its option; the denominations in which the Corporation will issue any registered Debt Securities, if other than denominations of $1,000 and any multiple of $1,000 and, if other than denominations of $5,000, the denominations in which any bearer Debt Security shall be issuable; whether the Corporation will make payments on the Debt Securities in a currency or currency unit other than Canadian dollars or by delivery of its Shares or other property; whether payments on the Debt Securities will be payable with reference to any index or formula; whether the Corporation will issue the Debt Securities as global securities and, if so, the identity of the depositary for the global securities; whether the Corporation will issue the Debt Securities as bearer securities, registered securities or both; if other than a trustee, the identity of each security registrar and/or paying agent; the terms and conditions, if any, upon which the Corporation may redeem the Debt Securities prior to maturity and the price or prices of which and the currency or currency units in which the Debt Securities are payable; the designation of the initial exchange rate agent, if any; any changes or additions to events of default or covenants; whether the holders of any series of Debt Securities have special rights if specified events occur; the terms for any conversion, exercise or exchange of the Debt Securities for any other securities and whether such conversion, exercise or exchange is mandatory, at the option of the holder or at its option; provisions as to modifications, amendment or variation of any rights or terms attaching to the Debt Securities; whether the Debt Securities are subject to mandatory or optional remarketing or other mandatory or optional resale provisions, and, if applicable, the date or period during which such resale may occur, any conditions to such resale and any right of a holder to substitute securities for the securities subject to resale; and any other terms of the Debt Securities.

The Corporation may issue Debt Securities bearing no interest or interest at a rate below the prevailing market rate at the time of issuance, and offer and sell these Debt Securities at a discount below their stated principal amount. The Corporation may also sell any of the Debt Securities for a foreign currency or currency unit, and payments on the Debt Securities may be payable in a foreign currency or currency unit. In any of these cases, the Corporation will describe any Canadian federal income tax consequences and other special considerations in the applicable Prospectus Supplement. The Corporation may issue Debt Securities with terms different from those of Debt Securities previously issued and, without the consent of the holders thereof, the Corporation may reopen a previous issue of a series of Debt Securities and issue additional Debt Securities of such series (unless the reopening was restricted when such series was created).

On September 20, 2013, the Corporation entered into the Credit Agreement, as disclosed under the heading "Consolidated Capitalization". The Credit Agreement will impact the Corporation's ability to grant Debt Securities. Any impact of the Credit Agreement on the Debt Securities will be described in the applicable Prospectus Supplement.

Warrants

The following description, together with the additional information the Corporation may include in any applicable Prospectus Supplements summarizes the material terms and provisions of the warrants (the "**Warrants**") that the Corporation may offer under this Prospectus, which may consist of Warrants to purchase Common Shares and may be issued in one or more series. Warrants may be offered independently or together with Common Shares or Debt Securities offered by any Prospectus Supplement, and may be attached to or separate from those securities. While the terms the Corporation has summarized below will apply generally to any Warrants that the Corporation may offer under this Prospectus, the Corporation will describe the particular terms of any series of Warrants that it may offer in more detail in the applicable Prospectus Supplement and any applicable free writing prospectus.

The terms of any Warrants offered under a Prospectus Supplement may differ from the terms described below. Generally Warrants may be issued under and governed by the terms of one or more warrant indentures (each, a "**Warrant Indenture**") between the Corporation and a warrant trustee (which the Corporation refers to as the "**Warrant Trustee**") that the Corporation will name in the relevant Prospectus Supplement. Each Warrant Trustee will be a financial institution organized under the laws of Canada or any province thereof and authorized to carry on business as a trustee. This summary of some of the provisions of the Warrants is not complete. The statements made in this Prospectus relating to any Warrant Indenture and Warrants to be issued under this Prospectus are summaries of certain anticipated provisions thereof and do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all provisions of the applicable Warrant Indenture. Prospective investors should refer to the Warrant Indenture relating to the specific Warrants being offered for the complete terms of the Warrants. The applicable Prospectus Supplement relating to any Warrants offered by the Corporation will describe the particular terms of those Warrants and include specific terms relating to the offering. The particular terms of each issue of Warrants will be described in the applicable Prospectus Supplement. This description will include, where applicable: the designation and aggregate number of Warrants; the price at which the Warrants will be offered; the currency or currencies in which the Warrants will be offered; the date on which the right to exercise the Warrants will commence and the date on which the right will expire; the number of Common Shares that may be purchased upon exercise of each Warrant and the price at which and currency or currencies in which the Common Shares may be purchased upon exercise of each Warrant; the designation and terms of any Common Shares or Debt Securities (the "**Securities**") with which the Warrants will be offered, if any, and the number of the Warrants that will be offered with each Security; the date or dates, if any, on or after which the Warrants and the other Securities with which the Warrants will be offered will be transferable separately; whether the Warrants will be subject to redemption and, if so, the terms of such redemption provisions; whether the Corporation will issue the Warrants as global securities and, if so, the identity of the depositary of the global securities; whether the Warrants will be listed on any exchange; material U.S. and Canadian federal income tax consequences of owning the Warrants; and any other material terms or conditions of the Warrants.

Rights of Holders Prior to Exercise

Prior to the exercise of their Warrants, holders of Warrants will not have any of the rights of holders of the Common Shares or Debt Securities issuable upon exercise of the Warrants.

Exercise of Warrants

Each Warrant will entitle the holder thereof to purchase the securities that the Corporation specifies in the applicable Prospectus Supplement at the exercise price that the Corporation describes therein. Unless the Corporation otherwise specifies in the applicable Prospectus Supplement, holders of the Warrants may exercise the Warrants at any time up to the specified time on the expiration date that the Corporation sets forth in the applicable Prospectus Supplement. After the close of business on the expiration date, unexercised Warrants will become void. Holders of the Warrants may exercise the Warrants by delivering a Warrant certificate representing the Warrants to be exercised together with specified information, and paying the required amount to the Warrant Trustee in immediately available funds, as provided in the applicable Prospectus Supplement. The Corporation will set forth on the Warrant certificate and in the applicable Prospectus Supplement the information that the holder of the Warrant will be required to deliver to the Warrant Trustee. Upon receipt of the required payment and the Warrant certificate properly completed and duly executed at the corporate trust office of the Warrant Trustee or any other office indicated in the applicable Prospectus Supplement, the Corporation will issue and deliver the securities purchasable upon such exercise. If fewer than all of the Warrants represented by the Warrant certificate are exercised, the Corporation will issue a new Warrant certificate for the remaining amount of Warrants. Holders of the Warrants may surrender securities as all or part of the exercise price for Warrants if provided for in the applicable Prospectus Supplement.

Anti-Dilution

A Warrant Indenture will specify that upon the subdivision, consolidation, reclassification or other material change of the Common Shares or any other reorganization, amalgamation, merger or sale of all or substantially all of the Corporation's assets, the Warrants will thereafter evidence the right of the holder to receive the securities, property or cash deliverable in exchange for or on the conversion of or in respect of the Common Shares to which the holder of a Common Share would have been entitled immediately after such event. Similarly, any distribution to all or substantially all of the holders of Common Shares of rights, options, warrants, evidences of indebtedness or assets will result in an adjustment in the number of Common Shares to be issued to holders of Warrants.

Global Securities

The Corporation may issue Warrants in whole or in part in the form of one or more global securities, which will be registered in the name of and be deposited with a depositary, or its nominee, each of which will be identified in the applicable Prospectus Supplement. The global securities may be in temporary or permanent form. The applicable Prospectus Supplement will describe the terms of any depositary arrangement and the rights and limitations of owners of beneficial interests in any global security. The applicable Prospectus Supplement will describe the exchange, registration and transfer rights relating to any global security.

Modifications

The Warrant Indenture will provide for modifications and alterations to the Warrants issued thereunder by way of a resolution of holders of Warrants at a meeting of such holders or consent in writing from such holders. The number of holders of Warrants required to pass such a resolution or execute such a written consent will be specified in the Warrant Indenture. The Corporation may amend any Warrant Indenture and the Warrants, without the consent of the holders of the Warrants, to cure any ambiguity, to cure, correct or supplement any defective or inconsistent provision, or in any other manner that will not materially and adversely affect the interests of holders of Warrants.

Subscription Receipts

The following sets forth certain general terms and provisions of the subscription receipts of the Corporation (the "**Subscription Receipts**"). The Corporation may issue Subscription Receipts that may be exchanged by the holders thereof for Common Shares, Preferred Shares or Debt Securities upon the satisfaction of certain conditions. The particular terms and provisions of the Subscription Receipts offered pursuant to an accompanying Prospectus Supplement, and the extent to which the general terms described below apply to those Subscription Receipts, will be described in such Prospectus Supplement.

Subscription Receipts may be offered separately or together with Common Shares, Preferred Shares or Debt Securities, as the case may be. The Subscription Receipts will be issued under a subscription receipt agreement. Any Prospectus Supplement for Subscription Receipts supplementing this Prospectus will contain the terms and conditions and other information with respect to the Subscription Receipts being offered thereby, including:

(a) the number of Subscription Receipts;

(b) the price at which the Subscription Receipts will be offered and whether the price is payable in installments;

(c) the conditions to the exchange of Subscription Receipts into Common Shares, Preferred Shares or Debt Securities, as the case may be, and the consequences of such conditions not being satisfied;

(d) the procedures for the exchange of the Subscription Receipts into Common Shares, Preferred Shares or Debt Securities, as the case may be;

(e) the number of Common Shares, Preferred Shares or Debt Securities, as the case may be, that may be exchanged upon exercise of each Subscription Receipt;

(f) the designation and terms of any other securities with which the Subscription Receipts will be offered, if any, and the number of Subscription Receipts that will be offered with each security;

(g) the dates or periods during which the Subscription Receipts may be exchanged into Common Shares, Preferred Shares or Debt Securities;

(h) whether such Subscription Receipts will be listed on any securities exchange;

(i) any other rights, privileges, restrictions and conditions attaching to the Subscription Receipts; and

(j) other specific terms.

Subscription Receipt certificates will be exchangeable for new Subscription Receipt certificates of different denominations at the office indicated in the Prospectus Supplement. Prior to the exchange of their Subscription Receipts, holders of Subscription Receipts will not have any of the rights of holders of the securities subject to the Subscription Receipts.

Units

The following description, together with the additional information the Corporation may include in any applicable Prospectus Supplements, summarizes the material terms and provisions of the units (the "**Units**") that the Corporation may offer under this Prospectus. While the terms the Corporation has summarized below will apply generally to any Units that the Corporation may offer under this Prospectus, the Corporation will describe the particular terms of any series of Units in more detail in the applicable Prospectus Supplement. The terms of any Units offered under a Prospectus Supplement may differ from the terms described below. The Corporation will add disclosure to any subsequent Prospectus Supplement whereby Units are offered, the form of unit agreement ("**Unit Agreement**") between the Corporation and a unit agent ("**Unit Agent**") that describes the terms and conditions of the series of Units the Corporation is offering, and any supplemental agreements, before the issuance of the related series of Units. The following summaries of material terms and provisions of the Units are subject to, and qualified in their entirety by reference to, all the provisions of the Unit Agreement and any supplemental agreements applicable to a particular series of Units. The Corporation urges you to read the applicable Prospectus Supplements related to the particular series of Units that the Corporation sells under this Prospectus, as well as the complete Unit Agreement and any supplemental agreements that contain the terms of the Units.

The Corporation may issue Units comprising two or more of the following: Common Shares, Preferred Shares, Debt Securities, Subscription Receipts or Warrants, in any combination. Each Unit will be issued so that the holder of the Unit is also the holder of each security included in the Unit. Thus, the holder of a Unit will have the rights and obligations of a holder of each included security. The Unit Agreement under which a Unit is issued may provide that the securities included in the Unit may not be held or transferred separately, at any time or at any time before a specified date. The Corporation will describe in the applicable Prospectus Supplement the terms of the series of Units, including: the designation and terms of the Units and of the securities comprising the Units, including whether and under what circumstances those securities may be held or transferred separately; any provisions of the governing Unit Agreement that differ from those described below; and any provisions for the issuance, payment, settlement, transfer or exchange of the Units or of the securities comprising the Units. The provisions described in this section, as well as those described under "Common Shares", "Preferred Shares", "Debt Securities", "Subscription Receipts" and "Warrants" will apply to each Unit and to any Common Share, Preferred Share, Debt Security, Subscription Receipt or Warrant included in each Unit, respectively.

Each Unit Agent will act solely as its agent under the applicable Unit Agreement and will not assume any obligation or relationship of agency or trust with any holder of any Unit. A bank or trust company may act as Unit Agent for more than one series of Units. A Unit Agent will have no duty or responsibility in case of any default by the Corporation under the applicable Unit Agreement or Unit, including any duty or responsibility to initiate any proceedings at law or otherwise, or to make any demand upon us. Any holder of a Unit may, without the consent of the related Unit Agent or the holder of any other Unit, enforce by appropriate legal action its rights as holder under any security included in the Unit. The Corporation, the Unit Agents, and any of the Corporation's agents may treat the registered holder of any Unit certificate as an absolute owner of the Units evidenced by that certificate for any purpose and as the person entitled to exercise the rights attaching to the Units so requested, despite any notice to the contrary.

PRIOR SALES

Common Shares

During the 12 months preceding the date of this Prospectus, the Corporation issued the following Common Shares:

- On February 26, 2013, the Corporation issued 10,000 Common Shares pursuant to the exercise of outstanding stock options at $0.56 per Common Share.

- On June 10, 2013, the Corporation issued 7,678,034 Common Shares pursuant to a non-brokered private placement at $0.60 per Common Share.

Stock Options

The following table sets forth details for all stock options of the Corporation that were issued under the stock option plan of the Corporation during the 12-month period prior to the date of this Prospectus.

Date Granted	Number of Common Shares Issuable	Exercise Price Per Common Share	Expiry Date
September 12, 2012	100,000	$1.52	September 11, 2017
January 7, 2013	50,000	$1.19	January 6, 2018
May 13, 2013	25,000	$0.51	May 12, 2018
July 8, 2013	150,000	$0.91	July 7, 2018

Warrants

There were no warrants of the Corporation that were issued during the 12-month period prior to the date of this Prospectus.

Convertible Debenture

On September 20, 2013, the Corporation issued the Convertible Debenture, as disclosed under the heading "Consolidated Capitalization".

RISK FACTORS

An investment in the Corporation's securities is subject to a number of risks, including those described below, that could have a material adverse effect upon, among other things, the operating results, business prospects and condition (financial or otherwise) of the Corporation. A prospective purchaser of such securities should carefully consider the information described in this Prospectus, the documents incorporated by reference in this Prospectus, including, without limitation, the risk factors set out under the heading "*Risk Factors*" in the Corporation's Annual Information Form and the information under the heading "*Cautionary Note Regarding Forward-Looking Information*" and, in particular, such prospective purchaser should give special consideration to the following risk factors before making a decision to purchase securities of the Corporation. The risks described herein are not the only risk factors facing the Corporation and should not be considered exhaustive. Additional risks and uncertainties not currently known to the Corporation, or that the Corporation currently considers immaterial, may in the future also materially and adversely affect the business, operations and condition (financial or otherwise) of the Corporation.

Risk Factors Associated with the Business of Merus

Merus may not be able to implement its strategy to grow its 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 acquisitions 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 favourably in those product categories.

Merus may not be able to acquire the license rights to new products.

Merus depends on 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.

In June 2012, Optimer received Health Canada approval for its product: DIFICID®. DIFICID® is another method for the treatment of C. 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 expire in the future, which could result in significant competition from generic products resulting in a significant reduction in sales.

The core patents protecting the Corporation's Vancocin® products expired on July 13, 2010 and the core patents protecting the Corporation's ENABLEX products expire on August 2016, respectively, which could result in significant competition from generic products and could result in a significant reduction in sales. In such situations, 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 NOC to PPC, which allows PPC the authority to market their generic version of Vancocin® capsules in the Canadian market. PPC commercially launched a generic version of Vancocin® in July 2012 which may materially affect the sales of Vancocin®, which would have a material adverse effect on Merus' business, financial condition and operating results.

Merus may not be able to protect and maintain its Intellectual Property and Licensing Arrangements.

Merus' success will depend in part on its ability to protect and maintain intellectual property rights and licensing arrangements for its products. No assurance can be given that the licenses or rights used by Merus will not be challenged, invalidated, infringed or circumvented, or that the rights granted thereunder will provide competitive advantages to Merus. Any loss of intellectual property protection is likely to adversely affect Merus' operating results. The commercial success of Merus will also depend in part on Merus not infringing patents or proprietary rights of others and not breaching the licenses granted to Merus. There can be no assurance that Merus will be able to obtain a license to any third party technology that may be required to conduct its business or that such technology can be licensed at a reasonable cost. There is no certainty that Merus will not be challenged by its partners for non-compliance with its existing or future licensing arrangements. Consequently, there may be a risk that licensing arrangements are withdrawn with no compensation to Merus.

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 maintains 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 or 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 and would result in Merus needing to divert resources which could otherwise be used in developing its business.

Unexpected product safety or efficacy concerns may arise.

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. This could have a material adverse effect on Merus' business, financial results and operating results.

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 able 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 may not be able to continue to meet certain covenants under its existing credit facilities.

Merus' credit facilities require it to maintain specified collateral coverage ratios and satisfy financial covenants. There can be no assurance that Merus will be able to continue to meet certain covenants under its existing credit facilities. A failure to meet such covenants could result in Merus' lenders seeking to enforce their security under such credit facilities. This may negatively affect its financial condition, business and operating results.

Merus' credit facility also contains restrictive covenants that, among other things, limit Merus' ability and the ability of Merus' subsidiaries to:

- incur additional indebtedness;
- repurchase certain indebtedness;
- pay dividends, redeem stock or make other distributions;
- make investments;
- create certain liens;
- transfer or sell assets;
- merge, consolidate or sell all or substantially all of Merus' assets;
- create restrictions on the ability of Merus' restricted subsidiaries to make payments to us; and
- enter into certain transactions with Merus' affiliates.

The restrictions in Merus' credit facilities governing Merus' other indebtedness may prevent it from taking actions that Merus believes would be in the best interest of Merus' business and may make it difficult for it to execute Merus' business strategy successfully or effectively compete with companies that are not similarly restricted. Merus may also incur future debt obligations that might subject it to additional restrictive covenants that could affect Merus' financial and operational flexibility. Merus may be unable to refinance Merus' indebtedness, at maturity or otherwise, on terms acceptable to us, or at all.

Merus' ability to comply with the covenants and restrictions contained in the credit facilities may be affected by economic, financial and industry conditions beyond Merus' control including credit or capital market disruptions.

The breach of any of these covenants or restrictions could result in a default that would permit RBC and BMO to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If Merus is unable to repay indebtedness, RBC and BMO could proceed against the collateral securing the indebtedness. This could have serious consequences to Merus' financial position and results of operations and could cause it to become bankrupt or insolvent.

Merus relies on third parties to manufacture its products.

Merus does not have the internal capability to manufacture pharmaceutical products and relies 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 exposes 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.

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

Merus relies 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 consummates one or more significant acquisitions through the issuance of shares, Merus' shareholders could suffer significant dilution of their ownership interests.

Merus depends on key managerial personnel for its success.

Merus is dependent upon qualified managerial personnel. Merus' 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 may not maintain key person life insurance on any of its employees.

Increases in sales may attract generic competition.

If sales of any of Merus' products, that no longer enjoy market exclusivity or are not sufficiently protected by associated intellectual property, 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 is 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.

Policies regarding returns, allowances and chargebacks may reduce revenues in future fiscal periods.

Merus establishes estimates of the impact that policies regarding returns, allowances, and chargebacks 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 and cash flows.

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

Merus may be exposed to fluctuations of the Canadian dollar against certain other currencies because it publishes its financial statements in Canadian dollars, while a 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, U.S. 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 has used, in the past, forward contracts and other derivative instruments to reduce its exposure to foreign currency risk and may or may not do so in the future. 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 may 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 regularly reviews 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.

Maintaining effective internal controls over financial reporting.

Merus' management, with the participation of its Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Merus' internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. As noted in the Corporation's Management's Discussion and Analysis for the three and nine months ended June 30, 2013, management determined that there was a material weakness in internal controls over financial reporting as at September 30, 2012 which persisted through the quarter ended December 31, 2012. In addition, management has concluded that as of September 30, 2012 and December 31, 2012, Merus' disclosure controls and procedures were not effective as a result of the material weakness in internal controls over financial reporting. Merus' management has taken steps to remediate the underlying causes of the material weakness and as at June 30, 2013, management evaluated the design and operating effectiveness of its internal controls over financial reporting and concluded as at June 30, 2013, the aforementioned material weakness was remediated and that internal controls over financial reporting were operating effectively. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives due to its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is therefore subject to error, collusion, or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis, and although it is possible to incorporate into the financial reporting process safeguards to reduce this risk, they cannot be guaranteed to entirely eliminate it.

Risks Relating to Merus' Common Shares

There are a large number of unexercised share purchase warrants and stock options outstanding. If these are exercised, the investor's interest in Merus will be diluted.

As of September 30, 2013, there were 38,391,512 Common Shares issued. If all of the share purchase warrants, options, and Convertible Debenture that were issued and outstanding as of that date were to be exercised, including warrants and options that are not yet exercisable, Merus would be required to issue up to an additional 11,327,616 Common Shares, or approximately 29.5% of Merus' issued and outstanding Common Shares as of September 30, 2013. This would substantially decrease the proportionate ownership and voting power of all other stockholders. This dilution could cause the price of Merus' shares to decline and it could result in the creation of new control persons. In addition, Merus' stockholders could suffer dilution in the net book value per share.

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 on acceptable terms 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 Merus can issue additional Common Shares, purchasers of the Corporation's Securities may incur immediate dilution and may experience further dilution.

Merus is authorized to issue an unlimited number of Common Shares, of which 38,391,512 shares were issued and outstanding as of September 30, 2013 and an unlimited number of Preferred Shares, of which none were issued and outstanding as of September 30, 2013. Merus' board of directors has the authority to cause Merus to issue additional Common Shares without the consent of any of Merus' stockholders. Consequently, the stockholders may experience more dilution in their ownership of the Common Shares in the future.

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.

TRADING PRICE AND VOLUME

The Common Shares are listed for trading on the TSX under the symbol "MSL" and on NASDAQ under the symbol "MSLI". The following table lists the closing price range and trading volumes of the Common Shares as reported by the TSX for the periods indicated.

Month	High	Low	Total Volume
2012			
July	$1.90	$1.60	825,800
August	$1.74	$1.46	247,812
September	$1.60	$1.36	512,616
October	$1.49	$0.85	834,586
November	$1.55	$1.26	216,159
December	$1.20	$0.90	526,031
2013			
January	$1.20	$0.91	161,767
February	$1.35	$0.92	1,773,955
March	$1.10	$0.80	350,325
April	$0.81	$0.61	387,905
May	$0.72	$0.48	1,937,413
June	$0.90	$0.60	2,077,651
July	$1.29	$0.80	4,996,986
August	$1.14	$0.89	2,409,771
September	$1.45	$1.00	4,498,535

LEGAL MATTERS

Certain legal matters relating to this offering will be passed upon by Clark Wilson LLP, Vancouver, British Columbia, on behalf of Merus.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The applicable Prospectus Supplement may describe certain Canadian federal income tax consequences to investors described therein of acquiring, holding and disposing of securities offered thereby.

The applicable Prospectus Supplement may also describe certain U.S. federal income tax consequences of the acquisition, ownership and disposition of securities offered thereby by an initial investor who is a U.S. person (within the meaning of the U.S. Internal Revenue Code), if applicable.

EXPERT

Unless provided otherwise in a Prospectus Supplement, certain legal matters in connection with the securities offered hereby will be passed upon by Clark Wilson LLP, the Corporation's counsel. If counsel for any underwriter, dealer or agent passes on legal matters in connection with an offering made by this Prospectus, the Corporation will name that counsel in the Prospectus Supplement relating to the offering. As of the date of this Prospectus, the partners and associates of Clark Wilson LLP, as a group, beneficially own, directly or indirectly, less than 1% of the Corporation's outstanding securities of any class.

AUDITOR, TRANSFER AGENT AND REGISTRAR

The auditor of the Corporation is Deloitte LLP at its Toronto, Ontario office. Deloitte LLP is independent of the Corporation in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

Olympia Trust Company, at its Vancouver office located at 1003-750 West Pender Street, Vancouver, British Columbia V6C 2T8, is the transfer agent and registrar for the Common Shares.

DIVIDEND POLICY

To date, the Corporation has not paid any dividends on its outstanding Common Shares. The future payment of dividends will be dependent upon the financial requirements of the Corporation to fund further growth, the financial condition of the Corporation and other factors which the board of directors of the Corporation may consider in the circumstances. It is not contemplated that any dividends will be paid in the immediate or foreseeable future.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. The securities legislation further provides a purchaser with remedies for rescission or damages if the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

CERTIFICATE OF THE CORPORATION

DATE: October 3, 2013

This short form prospectus (the "Prospectus"), together with the documents incorporated by reference, will, as of the date of the last supplement to this Prospectus relating to the securities offered by the Prospectus and the supplement(s), constitute full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus and the supplement(s) as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario.

"ELIAS FARAH"	*"ANDREW PATIENT"*
ELIAS FARAH Chief Executive Officer and Director	ANDREW PATIENT Chief Financial Officer

ON BEHALF OF THE BOARD

"TIMOTHY SORENSEN"	*"ROBERT POLLOCK"*
TIMOTHY SORENSEN Director	ROBERT POLLOCK Director