

MEDICURE INC  
Form 20-F  
August 27, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES  
EXCHANGE ACT OF 1934** or

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

For the fiscal year ended: May 31, 2007 or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934** or

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission file number: 0-31092**

**MEDICURE INC.**

(Exact name of registrant as specified in its charter)

**Canada**

(Jurisdiction of incorporation or organization)

**4 - 1200 Waverley Street, Winnipeg, Manitoba, Canada R3T 0P4**

(Address of principal executive offices)

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

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

Common Shares, without par value

\_\_\_\_\_  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**At May 31, 2007 the registrant had 116,314,509 common shares issued and outstanding**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes \_\_\_\_\_ No  X

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes \_\_\_\_\_ No  X

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which financial statement item the registrant has elected to follow: **Item 17**  **Item 18**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of May 31, 2007, the rate for Canadian dollars was US \$0.9349 for Cdn \$1.00.

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## GLOSSARY OF TERMS

The following words and phrases shall have the meanings set forth below:

**"angina"** means chest pain;

**"angioplasty"** means the surgical repair of a blood vessel;

**"anti-hypertensive"** means blood pressure reducing;

**"arrhythmia"** means irregular heart rhythm;

**"bioavailability"** means the degree to which a drug or other substance becomes available to the target in the body after administration;

**"Computer Aided Drug Design"** means a method for design of new therapeutic molecules using computer generated models of the drug and its molecular target;

**"FDA"** means the United States Food and Drug Administration;

**"GCP"** means Good Clinical Practices;

**"GLP"** means Good Laboratory Practice;

**"GMP"** means Good Manufacturing Practice;

**"IND"** means Investigative New Drug application to a regulatory authority for first human testing of a new drug;

**"in-vitro"** means test tube;

**"in-vivo"** means live animal;

**"ischemia"** means the lack of blood flow;

**"myocardial infarction"** means scarring and death to portions of the heart wall;

**"myocardial ischemia"** means blockages to parts of the heart muscle;

**"NDA"** means New Drug Application, which is a request made to the FDA for commencement of product sales and marketing;

**"NDS"** means New Drug Submission, which is a request made to the TPD for commencement of product sales and marketing;

**"pharmacodynamics"** means the fundamental processes through which a drug(s) exerts its effects on living organisms;

**"pharmacokinetics"** means the uptake, biotransformation, distribution, metabolism and elimination of a drug(s) by the body, including both total amounts and tissue and organ concentrations;

"**reperfusion**" means the resumption of blood flow;

"**TPD**" means the Canadian Therapeutic Products Directorate, formerly the Canadian Health Protection Branch;

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As used in this annual report, the Corporation or Company refers to Medicure Inc., the company resulting from the amalgamation of Medicure Inc. and Lariat Capital Inc., and Medicure refers to Medicure Inc. prior to its amalgamation with Lariat Capital Inc. Unless otherwise indicated, all references to dollar amounts in this annual report are to Canadian dollars.

## **FORWARD LOOKING STATEMENTS**

Medicure Inc. cautions readers that certain important factors (including without limitation those set forth in this Form 20-F) may affect the Corporation's actual results in the future and could cause such results to differ materially from any forward-looking statements that may be deemed to have been made in this Form 20-F annual report, or that are otherwise made by or on behalf of the Corporation. These statements may include, but are not limited to, plans regarding the development and advancement of MC-1, statements about the Corporation's AGGRASTAT® operations, statements concerning the Corporation's partnering and regulatory discussions, future financial position, future revenues, projected costs, and management's strategy. For this purpose, any statements contained in the annual report that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as may, except, believe, anticipate, intend, could, estimate, or could be negative or other variations of comparable terminology, are intended to identify forward-looking statements.

## **PART I**

### **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

#### **A. Directors and Senior Management**

Not applicable

#### **B. Advisers**

Not applicable

#### **C. Auditors**

Not applicable

### **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable

### **ITEM 3. KEY INFORMATION**

#### **A. Selected Financial Data**

The selected financial data of the Corporation as at May 31, 2007 and 2006 and for the fiscal years ended May 31, 2007, 2006 and 2005 was extracted from the audited consolidated financial statements of the Corporation included in this annual report on Form 20-F. The information contained in the selected financial data is qualified in its entirety by reference to the more detailed consolidated financial statements and related notes included in Item 17 - Financial Statements, and should be read in conjunction with such financial statements and with the information appearing in Item 5 - Operating and Financial Review and Prospects. The selected financial data as at May 31, 2005, 2004 and 2003 and for the fiscal years ended May 31, 2004 and 2003 was extracted from the audited financial statements of the

Corporation not included in this annual report. Reference is made to Note 13 of the consolidated financial statements of the Corporation included herein for a discussion of the material measurement differences

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between Canadian GAAP and U.S. GAAP, and their effect on the Corporation's financial statements. Except where otherwise indicated, all amounts are presented in accordance with Canadian GAAP.

To date, the Corporation has not generated sufficient cash flow from operations to fund ongoing operational requirements and cash commitments. The Corporation has financed its operations principally through the sale of its equity securities. While the Corporation believes it has sufficient capital and liquidity to finance current operations, nevertheless, its ability to continue operations is dependent on the ability of the Corporation to obtain additional financing. See Item 3 - Key Information - D. Risk Factors. Based on the Corporation's current plans and upon closing of the transactions disclosed in Item 8B Financial Information Significant Changes below, the Corporation's available working capital will be sufficient into the first half of fiscal 2009.

**Under Canadian Generally Accepted Accounting Principles (in Canadian dollars):**

<b>Balance Sheet Data</b>	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>	<b>May 31,</b>
<b>(as at period end)</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current Assets	35,827,187	35,841,573	8,658,888	21,342,820	4,465,048
Capital Assets	196,521	50,663	81,002	66,202	67,497
Intangible Assets	23,412,131	2,921,841	1,332,969	976,690	763,464
Other Assets	349,963	-	-	-	-
<b>Total Assets</b>	<b>59,785,802</b>	<b>38,814,077</b>	<b>10,072,859</b>	<b>22,385,712</b>	<b>5,296,009</b>
Total Liabilities	25,479,333	1,644,339	2,732,754	817,575	353,908
Net Assets	34,306,469	37,169,738	7,340,105	21,568,137	4,942,101
Capital Stock and Contributed Surplus	112,137,421	83,297,304	40,860,597	40,222,719	17,607,597
Deficit	(77,830,952)	(46,127,566)	(33,520,492)	(18,654,582)	(12,665,496)
<b>Statement of Operations</b>					
<b>(for the fiscal year ended on)</b>					
Product Sales	5,944,730	-	-	-	-
Interest and Other Income	1,590,801	299,737	394,784	445,461	241,281
Loss from Continuing Operations	(31,703,386)	(12,607,074)	(14,865,910)	(5,989,086)	(4,193,688)
Net Loss for the Period	(31,703,386)	(12,607,074)	(14,865,910)	(5,989,086)	(4,193,688)
Basic and Diluted Loss per Share	(0.30)	(0.17)	(0.22)	(0.11)	(0.11)
Weighted-Average Number of Common Shares Outstanding	104,879,404	75,144,764	66,717,715	55,738,716	37,118,889

**Under U.S. Generally Accepted Accounting Principles (in Canadian dollars):**

<b>Balance Sheet Data</b>	<b>May 31, 2007</b>	<b>May 31, 2006</b>	<b>May 31, 2005</b>	<b>May 31, 2004</b>	<b>May 31, 2003</b>
<b>(as at Period end)</b>				<b>\$</b>	<b>\$</b>
Current Assets	35,827,187	35,841,573	8,658,888	21,342,820	4,465,048
Capital Assets	196,521	50,663	60,859	41,472	37,050
Intangible Assets	20,078,862	-	-	-	-
Other Assets	349,963	-	-	-	-
<b>Total Assets</b>	<b>56,452,533</b>	<b>35,892,236</b>	<b>8,719,747</b>	<b>21,384,292</b>	<b>4,502,098</b>
<b>Total Liabilities</b>	<b>25,479,333</b>	<b>1,644,339</b>	<b>2,732,754</b>	<b>817,575</b>	<b>353,908</b>
<b>Net Assets</b>	<b>30,973,200</b>	<b>34,247,897</b>	<b>5,986,993</b>	<b>20,566,717</b>	<b>4,148,190</b>
Capital Stock and Contributed Surplus	128,382,255	99,542,135	57,105,431	56,459,161	33,818,449
<b>Deficit</b>	<b>(97,409,055)</b>	<b>(65,294,238)</b>	<b>(51,118,438)</b>	<b>(35,892,444)</b>	<b>(29,670,259)</b>
<b>Statement of Operations</b>					
Product Sales	5,944,730	-	-	-	-
Interest and Other Income	1,590,801	299,737	394,784	445,461	241,281
Loss from Continuing Operations	(32,114,817)	(14,175,800)	(15,225,994)	(6,222,185)	(5,255,613)
<b>Net Loss for the Period</b>	<b>(32,114,817)</b>	<b>(14,175,800)</b>	<b>(15,225,994)</b>	<b>(6,222,185)</b>	<b>(5,255,613)</b>
<b>Basic and Diluted Loss per Share</b>	<b>(0.31)</b>	<b>(0.19)</b>	<b>(0.23)</b>	<b>(0.11)</b>	<b>(0.14)</b>
<b>Weighted-Average Number of</b>					
<b>Common Shares Outstanding</b>	<b>104,879,404</b>	<b>75,144,764</b>	<b>66,717,715</b>	<b>55,738,716</b>	<b>37,118,889</b>

**Comparability of Data**

The selected financial data for the fiscal years ended May 31, 2007, 2006, 2005, 2004 and 2003 includes the operations of Medicare International Inc., a Barbados corporation ( Medicare International ), commencing June 1, 2000, and Medicare Pharma Inc., a United States corporation, and Medicare Europe Limited, a United Kingdom corporation, commencing June 1, 2006.

**Dividends**

No cash dividends have been declared nor are any intended to be declared. The Corporation is not subject to legal restrictions respecting the payment of dividends except that they may not be paid if the Corporation is, or would after the payment be, insolvent. Dividend policy will be based on the Corporation's cash resources and needs and it is anticipated that all available cash will be required to further the Corporation's research and development activities for the foreseeable future.

**Exchange Rates**

Unless otherwise indicated, all reference to dollar amounts are to Canadian dollars. The following table sets out the exchange rates for one Canadian dollar expressed in terms of one U.S. dollar for the periods indicated. Rates of

exchange are obtained from the Bank of Canada and believed by the Registrant to approximate closely the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank in New York.

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	May 31, 2007	May 31, 2006	May 31, 2005	May 31, 2004	May 31, 2003	
Period End	0.9349	0.9079	0.7967	0.7335	0.7307	
Average	0.8798	0.8588	0.7978	0.7453	0.6569	
	<b>June 2007</b>	<b>May 2007</b>	<b>April 2007</b>	<b>March 2007</b>	<b>February 2007</b>	<b>January 2007</b>
High for Month <sup>(1)</sup>	0.9491	0.9376	0.9051	0.8696	0.8647	0.8598
Low for Month <sup>(1)</sup>	0.9294	0.8958	0.8621	0.8462	0.8419	0.8440
Notes:						

<sup>(1)</sup> Figures are extracted from daily exchange rates

As of July 31, 2007, the exchange rate to convert one Canadian dollar into the U.S. dollar was 0.9374.

## B. Capitalization and Indebtedness

Not applicable

## C. Reasons for the Offer and Use of Proceeds

Not applicable

## D. Risk Factors

The Corporation's business entails significant risks. In addition to the usual risks associated with a business, the following is a general description of certain significant risk factors which are applicable to the Corporation.

**Prior to the acquisition of AGGRASTAT®, the Corporation had no products in commercial production or use. As such, the Corporation was considered to be a development-stage enterprise for accounting purposes prior to the acquisition. The Corporation expects to continue to incur substantial losses and may never achieve profitability, which in turn may harm its future operating performance and may cause the market price of its stock to decline.**

With the exception of AGGRASTAT®, the Corporation's products are in the development stage and accordingly, its business operations are subject to all of the risks inherent in the establishment and maintenance of a developing business enterprise, such as those related to competition and viable operations management.

The Corporation has incurred net losses every year since inception in 1997. As of May 31, 2007, the date of its last audited financial statements, the Corporation had an accumulated deficit of \$77,830,952. The Corporation incurred net losses of \$31,703,386 for the year ended May 31, 2007, \$12,607,074 for the year ended May 31, 2006, \$14,865,910 for the year ended May 31, 2005, \$5,989,086 for the year ended May 31, 2004 and \$4,193,688 for the year ended May 31, 2003.

The Corporation anticipates that its losses will not only continue for the foreseeable future but will increase significantly, principally from expenditures relating to its research and development efforts and clinical trials. The

long-term profitability of the Corporation's operations is uncertain, and may never occur. The Corporation's long-term profitability will be directly related to its ability to develop a commercially viable drug product or products. This in turn depends on numerous factors, including the following:

- a) the success of the Corporation's research and development activities, including its drug discovery, preclinical and clinical development programs;
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- b) obtaining Canadian and United States regulatory approvals to market MC-1 and MC-4232, its lead products;
- c) the ability to contract for the manufacture of the Corporation's products according to schedule and within budget, given that it has no experience in large scale manufacturing;
- d) the ability to successfully prosecute and defend its patents and other intellectual property; and
- e) the ability to successfully market the Corporation's products including AGGRASTAT® (tirofiban hydrochloride), given that it has limited experience in marketing.

If the Corporation does achieve profitability, it may not be able to sustain or increase profitability in the future.

**The Corporation may never receive regulatory approval in Canada, the United States or abroad for any of its products developed. Therefore, the Corporation may not be able to sell any therapeutic products developed.**

The Corporation's failure to obtain necessary regulatory approvals to fully market its current and future therapeutic products in one or more significant markets may adversely affect its business, financial condition and results of operations. The procedure involved in obtaining regulatory approval from the competent authorities to market therapeutic products is long and costly and may delay product development. The approval to market a product may be applicable to a limited extent only or it may be refused entirely.

With the exception of AGGRASTAT®, all of the Corporation's products are currently in the research and development stages. The Corporation may never have another commercially viable drug product approved for marketing. To obtain regulatory approvals for its products and to achieve commercial success, human clinical trials must demonstrate that the products are safe for human use and that they show efficacy. Even the Corporation's most clinically advanced product, MC-1, is only currently being studied in critical Phase III clinical trials. Unsatisfactory results obtained from a particular study or clinical trial relating to one or more of the Corporation's products may cause the Corporation to reduce or abandon its commitment to that program.

If the Corporation fails to successfully complete its clinical trials, it will not obtain approval from the Canadian Therapeutic Products Directorate, formerly the Canadian Health Protection Branch (TPD), or from the U.S. Food and Drug Administration (FDA), to market its leading product, MC-1 or its second clinical candidate, MC-4232. Regulatory approvals also may be subject to conditions that could limit the market for MC-1 or MC-4232 or make either product or both products more difficult or expensive to sell than anticipated. Also, regulatory approvals may be revoked at any time, including for failure to comply with regulatory requirements or poor performance of MC-1 or MC-4232 in terms of safety and effectiveness.

The Corporation's business, financial condition and results of operations may be adversely affected if it fails to obtain regulatory approvals in Canada, the United States and abroad to market and sell MC-1 or MC-4232 or any current or future drug products, including any limitations imposed on the marketing of such products.

**The Corporation may not be able to hire or retain the qualified scientific, technical and management personnel it requires.**

The Corporation has a contract with CanAm Bioresearch Inc. (CanAm) to perform for it a significant amount of its research and development activities. Because of the specialized scientific nature of the Corporation's business, the loss of services of CanAm may require the Corporation to attract and retain replacement qualified scientific, technical and management personnel. Competition in the biotechnology industry for such personnel is intense and the Corporation may not be able to hire or retain a sufficient number of qualified personnel, which may compromise the pace and



success of its research and development activities.

Also, certain of the Corporation's management personnel are officers and/or directors of other companies, some publicly-traded, and will only devote part of their time to the Corporation. The Corporation does

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not have key person insurance in effect in the event of a loss of any management, scientific or other key personnel. The loss of any such personnel could pose serious challenges for the Corporation.

**The Corporation faces substantial technological competition from many biotechnology companies with much greater resources, and it may not be able to effectively compete.**

Technological and scientific competition in the pharmaceutical and biotechnology industry is intense. The Corporation competes with other companies in Canada, the United States and abroad to develop products designed to treat similar conditions. Many of these other companies have substantially greater financial, technical and scientific research and development resources, manufacturing and production and sales and marketing capabilities than the Corporation. Small companies may also prove to be significant competitors, particularly through collaborative arrangements with large pharmaceutical and biotechnology companies. Developments by other companies may adversely affect the competitiveness of the Corporation's products or technologies or the commitment of its research and marketing collaborators to its programs or even render its products obsolete.

The pharmaceutical and biotechnology industry is characterized by extensive drug discovery and drug research efforts and rapid technological and scientific change. Competition can be expected to increase as technological advances are made and commercial applications for biopharmaceutical products increase. The Corporation's competitors may use different technologies or approaches to develop products similar to the products which it is developing, or may develop new or enhanced products or processes that may be more effective, less expensive, safer or more readily available before or after the Corporation obtains approval of its products. The Corporation may not be able to successfully compete with its competitors or their products and, if it is unable to do so, the Corporation's business, financial condition and results of operations may suffer.

**The Corporation may be unable to establish collaborative and commercial relationships with third parties.**

The Corporation's success will depend partly on its ability to enter into and to maintain various arrangements with corporate partners, licensors, licensees and others for the research, development, clinical trials, manufacturing, marketing, sales and commercialization of its products. These relationships will be crucial to the Corporation's intention to license to or contract with larger, international pharmaceutical companies the manufacturing, marketing, sales and distribution of any products it may commercialize for production. To date, the Corporation has not entered into any such arrangements and may never be able to establish such arrangements on favourable terms. There can be no assurance that any licensing or other agreements will be established on favourable terms, if at all. The failure to establish successful collaborative arrangements may negatively impact the Corporation's ability to develop and commercialize its products, and may adversely affect its business, financial condition and results of operations.

The Corporation has licensed certain technologies relating to products under development and may enter into future licensing agreements. The Corporation's current licensing agreements contain provisions allowing the licensors to terminate such agreements if it becomes insolvent or breach the terms and conditions of the licensing agreements without rectifying such event of default in accordance with the agreement terms.

**The Corporation may fail to obtain acceptable prices or appropriate reimbursement for its products and its ability to successfully commercialize its products may be impaired as a result.**

Government and insurance reimbursements for healthcare expenditures play an important role for all healthcare providers, including physicians, medical device companies, drug companies, medical supply companies, and companies, such as the Corporation, that plan to offer various products in the United States and other countries in the future. The Corporation's ability to earn sufficient returns on its products will depend in part on the extent to which reimbursement for the costs of such products, related therapies and related treatments will be available from

government health administration authorities, private health coverage insurers, managed care organizations, and other organizations. In the United States, the Corporation's ability to have its products and related treatments and therapies eligible for Medicare or

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private insurance reimbursement will be an important factor in determining the ultimate success of its products. If, for any reason, Medicare or the insurance companies decline to provide reimbursement for the Corporation's products and related treatments, the Corporation's ability to commercialize its products would be adversely affected. There can be no assurance that the Corporation's products and related treatments will be eligible for reimbursement.

There has been a trend toward declining government and private insurance expenditures for many healthcare items. Third-party payors are increasingly challenging the price of medical products and services.

If purchasers or users of the Corporation's products and related treatments are not able to obtain appropriate reimbursement for the cost of using such products and related treatments, they may forgo or reduce such use. Even if the Corporation's products and related treatments are approved for reimbursement by Medicare and private insurers, of which there can be no assurance, the amount of reimbursement may be reduced at times, or even eliminated. This would have a material adverse effect on the Corporation's business, financial condition, and results of operations.

Significant uncertainty exists as to the reimbursement status of newly approved healthcare products, and there can be no assurance that adequate third-party coverage will be available.

**Substantial cash payments may be required under the terms of the Corporation's borrowings upon an event of default or change of control. Such cash payments may leave the Corporation with little or no working capital in the business or make us insolvent.**

In August 2006, the Corporation entered into a term loan financing facility totaling approximately US\$15.84 million with a syndicate of lenders, led by Merrill Lynch Capital Canada Inc., and including Silicon Valley Bank and Oxford Finance Corporation (the Credit Facility). Under the Credit Facility, the Corporation's lenders may require that all or a portion of the principal amount of the Credit Facility be repaid in cash upon the occurrence of various customary events of default (subject to certain cure periods), including but not limited to:

- the failure to pay principal, fees and/or interest due under the Credit Facility;
  - the suspension of the Corporation's common shares from trading on the TSX and AMEX;
  - the issuance of any judgments or orders against the Corporation for the payment of money (not paid or fully covered by insurance) in an aggregate amount in excess of US\$375,000;
  - any material default under any indebtedness of the Corporation in an aggregate principal amount exceeding US\$375,000;
  - any breach of any term of the credit and security agreement under which the Credit Facility was extended or in any other document delivered pursuant thereto;
  - a default under any guarantee of the Credit Facility;
  - an unpermitted payment by any obligor under the Credit Facility on account of any debt that has been subordinated to the Credit Facility;
  - the occurrence of any fact, event or circumstance that could reasonably be expected to result in a material adverse effect; and
  - actual or anticipated (such anticipation by the lenders to be based on their reasonable judgment based on information received from the Corporation) breach of certain financial covenants (including a requirement that the Corporation achieve certain minimum net revenue targets from the sale of AGGRASTAT® as at December 31 of each year during the term of the Credit Facility).
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In August 2007, the Corporation agreed to an amendment with its existing lenders to certain of the covenants provided for in its credit agreement, dated August 8, 2006. The lenders and the Corporation have agreed, subject to certain conditions:

- i) From and after August 17, 2007, but no later than April 30, 2008, the Corporation shall receive additional cash for working capital in a total aggregate amount of at least US\$35 million from any and/or a combination of any of the sources described above, provided that (1) at least US\$15 million of such aggregate amount must be received by the Corporation no later than September 30, 2007 and (2) a further US\$15 million of such aggregate amount must be received by the Corporation no later than February 28, 2008 and (3) a further US\$5 million of such aggregate amount must be received by the Corporation no later than April 30, 2008. The Corporation intends that the additional cash to meet this test will come from the subscription agreement and term sheet described above.
- ii) To amend the credit agreement such that the Corporation is required to achieve the following minimum net revenue requirements from sales of AGGRASTAT®:
  - Calendar 2007 - nil
  - Calendar 2008 - US\$15 million
  - Calendar 2009 - US\$23 million
- iii) The Corporation will deposit US\$10 million in a cash collateral account to be held by Merrill Lynch Capital Inc. (Merrill), for the benefit of Merrill and the lenders, on closing of the financing transactions described above.

As disclosed in Item 8B Financial Information Significant Changes below, subsequent to May 31, 2007 the Corporation entered into two non-binding agreements that would, if they close, provide the Corporation with additional working capital totaling US\$40 million. The Corporation anticipates that it will meet the working capital covenant described above upon the closing of the above financings.

Upon the occurrence and during the continuance of an event of default, the interest rate on the Credit Facility will be increased by 1.5% . The lenders under the Credit Facility may also require all or a portion of the Credit Facility be redeemed in cash upon a change of control. The Corporation has not established a sinking fund for payment of the Credit Facility, nor does it anticipate doing so.

**The Corporation's substantial debt could impair its financial condition. The Corporation is highly leveraged and has substantial debt service obligations.**

As of May 31, 2007, the Corporation had approximately US\$15.84 million of principal indebtedness outstanding under the Credit Facility that bears interest at a floating rate at one-month LIBOR plus 6.5% per annum. This substantial indebtedness could have important consequences for the Corporation. For example, it could:

- increase the Corporation's vulnerability to general adverse economic and industry conditions, including increases to interest rates;
- impair the Corporation's ability to obtain additional financing in the future for working capital needs, capital expenditures or general corporate purposes;
- require the Corporation to dedicate a significant portion of its existing cash and proceeds from any future financing transactions to the payment of principal and interest on its debt, which would reduce the funds available for its operations;

- limit the Corporation's flexibility in planning for, or reacting to, changes in the business and the industry in which it operates; and
- place the Corporation at a competitive disadvantage compared to its competitors that have less debt.

**Despite current indebtedness levels and the terms of the Credit Facility, the Corporation may still be able to incur substantially more debt. This could further exacerbate the risks associated with the Corporation's substantial leverage.**

Despite current indebtedness levels and the terms of the Credit Facility, the Corporation may still be able to incur substantial additional indebtedness in the future. Under the Credit Facility, the Corporation is permitted to incur, among other types of indebtedness, indebtedness that is subordinate to the Credit Facility. If new debt is added to the Corporation's current debt levels, the related risks that it now faces could increase.

**The Corporation has agreed to guarantee certain annual minimum payments and other obligations under the proposal letter with Manchester Securities Corp., an affiliate of Elliott Associates L.P. ( Elliott ).**

On August 20, 2007, the Corporation executed a non-binding term sheet with Elliott (the Term Sheet ) pursuant to which the Corporation would grant to Elliott the right to receive royalties on future sales of AGGRASTAT® for an upfront payment of US \$25 million (the Proposed Transaction ). Under the terms of the Proposed Transaction, Elliott would receive an escalating minimum annual return based on AGGRASTAT® revenue until 2019. The minimum annual returns start at US\$2.5 million in 2007 and escalate to US\$6.9 Million in 2016. The exact percentage of AGGRASTAT® or MC-1 revenue that Elliott will receive is tiered and declines as certain revenue levels are achieved. To secure its obligation pursuant to the Proposed Transaction, the Corporation will grant to Elliott a first priority security interest in the Corporation's patents for AGGRASTAT® and MC-1. There is no assurance that the Corporation will have sufficient funds or assets to cover such payments. Failure to make minimum payments or perform other obligations pursuant to the Proposed Transaction may result in a default under the proposed security agreement with Elliott, which, if not cured, could impair the Corporation's ownership of its patents. This would have a material adverse effect on the Corporation.

Under the Proposed Transaction, Elliott would have the option to convert its royalty interest from AGGRASTAT® to MC-1 within six months of successful commercialization of MC-1 by the Corporation, if achieved. Upon conversion to MC-1, Elliott is entitled to a blended return of approximately 7% on the first US\$75 Million in MC-1 revenues and 3% thereafter.

The Proposed Transaction will also include an option for the Corporation to terminate the agreement for a payment of US \$70 million to Elliott if the U.S. Food & Drug Administration approves MC-1 for sale to the public.

The closing of the Proposed Transaction will be subject to the receipt of all necessary regulatory approvals and other conditions of closing. There can be no assurance that the Proposed Transaction will close.

**The Corporation does not have manufacturing or marketing experience and may never be able to successfully manufacture or market its products.**

The Corporation has no experience in large-scale manufacturing and in marketing or selling its products and may never be able to successfully manufacture and market its products. If the TPD or FDA approves MC-1, MC-4232 or any other of its products, the Corporation intends to contract with and rely on third parties to manufacture, market and sell its products. Accordingly, the quality, timing and ultimately the commercial success of such products may be outside of the Corporation's control. Failure of or delay by a third party manufacturer of the Corporation's products to comply with good manufacturing practices or similar quality control regulations or satisfy regulatory inspections may

have a material adverse effect on

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its future prospects. Failure of or delay by a third party in the marketing or selling of the Corporation's products likewise may have a material adverse effect on its future prospects.

**The Corporation has limited product liability insurance and may not be able to obtain adequate product liability insurance in the future.**

The sale and use of products under development by the Corporation, and the conduct of clinical studies involving human subjects, may entail product and professional liability risks, which are inherent in the testing, production, marketing and sale of new drugs to humans. While the Corporation has taken, and will continue to take, what it believes are appropriate precautions, there can be no assurance that it will avoid significant liability exposure. Although the Corporation currently carries product liability insurance for clinical trials, there can be no assurance that it has sufficient coverage, or can in the future obtain sufficient coverage at a reasonable cost. An inability to obtain insurance on economically feasible terms or to otherwise protect against potential product liability claims could inhibit or prevent the commercialization of products developed by the Corporation. The obligation to pay any product liability claim or recall a product may have a material adverse effect on its business, financial condition and future prospects. In addition, even if a product liability claim is not successful, adverse publicity and the time and expense of defending such a claim may significantly interfere with the Corporation's business.

**If the Corporation is unable to successfully protect its proprietary rights, its competitive position will be adversely affected.**

The Corporation's success will depend partly on its ability to obtain and protect its patents and protect its proprietary rights in unpatented trade secrets.

The Corporation owns or jointly owns 38 United States patents. The Corporation has additional pending United States patent applications. The Corporation's pending and any future patent applications may not be accepted by the United States Patent and Trademark Office or any other jurisdiction in which applications may be filed. Also, processes or products that may be developed by the Corporation in the future may not be patentable.

The patent protection afforded to biotechnology and pharmaceutical companies is uncertain and involves many complex legal, scientific and factual questions. There is no clear law or policy involving the degree of protection afforded under patents. As a result, the scope of patents issued to the Corporation may not successfully prevent third parties from developing similar or competitive products. Competitors may develop similar or competitive products that do not conflict with the Corporation's patents. Litigation may be commenced by the Corporation to prevent infringement of its patents. Litigation may also commence against the Corporation to challenge its patents that, if successful, may result in the narrowing or invalidating of such patents. It is not possible to predict how any patent litigation will affect the Corporation's efforts to develop, manufacture or market its products. However, the cost of litigation to prevent infringement or uphold the validity of any patents issued to the Corporation may be significant, in which case its business, financial condition and results of operations may suffer. Patents provide protection for only a limited period of time, and much of such time can occur well before commercialization commences.

Disclosure and use of the Corporation's proprietary rights in unpatented trade secrets not otherwise protected by patents are generally controlled by written agreements. However, such agreements will not provide the Corporation with adequate protection if they are not honoured, others independently develop an equivalent technology, disputes arise concerning the ownership of intellectual property, or its trade secrets are disclosed improperly. To the extent that consultants or other research collaborators use intellectual property owned by others in their work with the Corporation, disputes may also arise as to the rights to related or resulting know-how or inventions.



**Others could claim that the Corporation infringes on their proprietary rights, which may result in costly, complex and time consuming litigation.**

The Corporation's success will depend partly on its ability to operate without infringing upon the patents and other proprietary rights of third parties. The Corporation is not currently aware that any of its

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products or processes infringe the proprietary rights of third parties. However, despite its best efforts, the Corporation may be sued for infringing on the patent or other proprietary rights of third parties at any time in the future.

Such litigation, with or without merit, is time-consuming and costly and may significantly impact the Corporation's financial condition and results of operations, even if it prevails. If the Corporation does not prevail, it may be required to stop the infringing activity or enter into a royalty or licensing agreement, in addition to any damages it may have to pay. The Corporation may not be able to obtain such a license or the terms of the royalty or license may be burdensome for it, which may significantly impair the Corporation's ability to market its products and adversely affect its business, financial condition and results of operations.

**The Corporation is subject to stringent governmental regulation, in the future may become subject to additional regulations and if it is unable to comply, its business may be materially harmed.**

Biotechnology, medical device, and pharmaceutical companies operate in a high-risk regulatory environment. The TPD, FDA, and other health agencies can be very slow to approve a product and can also withhold product approvals. In addition, these health agencies also oversee many other medical product operations, such as research and development, manufacturing, and testing and safety regulation of medical products. As a result, regulatory risk is normally higher than in other industry sectors.

The Corporation is or may become subject to various federal, provincial, state and local laws, regulations and recommendations. The Corporation is subject to various laws and regulations in Canada, relating to product emissions, use and disposal of hazardous or toxic chemicals or potentially hazardous substances, infectious disease agents and other materials, and laboratory and manufacturing practices used in connection with its research and development activities. If the Corporation fails to comply with these regulations, it may be fined or suffer other consequences that could materially affect its business, financial condition or results of operations.

The Corporation is unable to predict the extent of future government regulations or industry standards. However, it should be assumed that government regulations or standards will increase in the future. New regulations or standards may result in increased costs, including costs for obtaining permits, delays or fines resulting from loss of permits or failure to comply with regulations.

**The Corporation's products may not gain market acceptance, and as a result it may be unable to generate significant revenues.**

The Corporation does not currently have the required clinical data and results to successfully market its product candidates in any jurisdiction; future clinical or preclinical results may be negative or insufficient to allow it to successfully market any of its product candidates; and obtaining needed data and results may take longer than planned, and may not be obtained at all.

Even if the Corporation's products are approved for sale, they may not be successful in the marketplace. Market acceptance of any of the Corporation's products will depend on a number of factors, including demonstration of clinical effectiveness and safety; the potential advantages of its products over alternative treatments; the availability of acceptable pricing and adequate third-party reimbursement; and the effectiveness of marketing and distribution methods for the products. Providers, payors or patients may not accept the Corporation's products, even if they prove to be safe and effective and are approved for marketing by the TPD, the FDA and other regulatory authorities. The Corporation estimates that it may take up to two years or longer before its initial products may be sold commercially. If the Corporation's products do not gain market acceptance among physicians, patients, and others in the medical community, its ability to generate significant revenues from its products would be limited.

**The Corporation may not achieve its projected development goals in the time frames it announces and expects.**

The Corporation sets goals for and makes public statements regarding timing of the accomplishment of objectives material to its success, such as the commencement and completion of clinical trials, anticipated

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regulatory approval dates, and time of product launch. The actual timing of these events can vary dramatically due to factors such as delays or failures in the Corporation's clinical trials, the uncertainties inherent in the regulatory approval process, and delays in achieving product development, manufacturing or marketing milestones necessary to commercialize its products. There can be no assurance that the Corporation's clinical trials will be completed, that it will make regulatory submissions or receive regulatory approvals as planned, or that it will be able to adhere to its current schedule for the scale-up of manufacturing and launch of any of its products. If the Corporation fails to achieve one or more of these milestones as planned, that could materially affect its business, financial condition or results of operations and the price of its common shares could decline.

**The Corporation's business involves the use of hazardous material, which requires it to comply with environmental regulations.**

Although the Corporation does not currently manufacture commercial quantities of its products, the Corporation produces limited quantities of such products for its clinical trials. The Corporation's research and development processes involve the controlled storage, use, and disposal of hazardous materials and hazardous biological materials. The Corporation is subject to laws and regulations governing the use, manufacture, storage, handling, and disposal of such materials and certain waste products. Although the Corporation believes that its safety procedures for handling and disposing of such materials comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Corporation could be held liable for any damages that result, and any such liability could exceed its resources. There can be no assurance that the Corporation will not be required to incur significant costs to comply with current or future environmental laws and regulations, or that its business, financial condition, and results of operations will not be materially or adversely affected by current or future environmental laws or regulations.

The Corporation's insurance may not provide adequate coverage with respect to environmental matters.

**Environmental regulation could have a material adverse effect on the results of the Corporation's operations and its financial position.**

The Corporation is subject to a broad range of environmental regulations imposed by federal, state, provincial, and local governmental authorities. Such environmental regulation relates to, among other things, the handling and storage of hazardous materials, the disposal of waste, and the discharge of contaminants into the environment. Although the Corporation believes that it is in material compliance with applicable environmental regulation, as a result of the potential existence of unknown environmental issues and frequent changes to environmental regulation and the interpretation and enforcement thereof, there can be no assurance that compliance with environmental regulation or obligations imposed thereunder will not have a material adverse effect on the Corporation in the future.

**The Corporation will need to raise additional capital through the sale of its securities, resulting in dilution to its existing shareholders. Such funds may not be available, or may not be available on reasonable terms, adversely affecting the Corporation's operations.**

The Corporation has limited financial resources and has financed its operations through the sale of securities, primarily common shares. The Corporation has significant on-going cash expenses and no ability to generate cash from operations. To meet its on-going cash needs the Corporation will need to continue its reliance on the sale of such securities for future financing, resulting in dilution to its existing shareholders. The Corporation's long-term capital requirements may be notably significant and will depend on many factors, including continued scientific progress in its product discovery and development program, progress in its pre-clinical and clinical evaluation of products and product candidates, time and expense associated with filing, prosecuting and enforcing its patent claims and costs associated with obtaining regulatory approvals. In order to meet such capital requirements, the Corporation will

consider contract fees, collaborative research and development arrangements, public financing or additional private financing (including the issuance of additional equity securities) to fund all or a part of particular programs.

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The Corporation's business, financial condition and results of operations will depend on its ability to obtain additional financing which may not be available under favourable terms, if at all. The Corporation's ability to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as its business performance. If its capital resources are exhausted and adequate funds are not available, the Corporation may have to reduce substantially or eliminate expenditures for research and development, testing, production and marketing of its proposed products, or obtain funds through arrangements with corporate partners that require it to relinquish rights to certain of its technologies or products.

As disclosed in Item 8B Financial Information Significant Changes below, subsequent to May 31, 2007 the Corporation entered into two non-binding agreements that would, if they close, provide the Corporation with additional working capital totaling US\$40 million.

**Future issuance of the Corporation's common shares will result in dilution to its existing shareholders. Additionally, future sales of the Corporation's common shares into the public market may lower the market price which may result in losses to its shareholders.**

As of May 31, 2007, the Corporation had 116,314,509, common shares issued and outstanding. A further 4,235,528 common shares are issuable upon exercise of outstanding stock options and another 10,691,468 common shares are issuable upon exercise of share purchase warrants, all of which may be exercised in the future resulting in dilution to the Corporation's shareholders. The Corporation's stock option plan allows for the issuance of stock options to purchase up to a maximum of 7,200,000 common shares at any time. The common shares to be issued upon exercise of the outstanding options and warrants will be freely tradable and not subject to any hold period when issued.

Sales of substantial amounts of the Corporation's common shares into the public market, or even the perception by the market that such sales may occur, may lower the market price of its common shares.

**The Corporation's common shares may experience extreme price and volume volatility which may result in losses to its shareholders.**

On May 31, 2007, the Corporation's common shares closed at a price of CDN\$1.23 on the TSX and US\$1.14 on the AMEX. For the period from June 1, 2006 to May 31, 2007, the high and low trading prices of the Corporation's common shares on the TSX were CDN\$1.88 and CDN\$1.10, respectively, with a total trading volume of 34,840,400 shares. For the period from June 1, 2006 to May 31, 2007, the high and low trading prices of the Corporation's common shares on the AMEX were US\$1.70 and US\$0.91, respectively, with a total trading volume of 26,426,800.

Daily trading volume on the TSX of the Corporation's common shares for the period from June 1, 2006 to May 31, 2007 has fluctuated, with a high of 617,500 shares and a low of 13,800 shares, averaging approximately 138,256 shares. Daily trading volume on the AMEX in the Corporation's common shares for the period from June 1, 2006 to May 31, 2007 has fluctuated with a high of 939,700 and a low of 3,800, averaging approximately 105,286. Accordingly, the trading price of the Corporation's common shares may be subject to wide fluctuations in response to a variety of factors including announcement of material events by the Corporation such as the status of required regulatory approvals for its products, competition by new products or new innovations, fluctuations in its operating results, general and industry-specific economic conditions and developments pertaining to patent and proprietary rights. The trading price of the Corporation's common shares may be subject to wide fluctuations in response to a variety of factors and/or announcements concerning such factors, including:

- actual or anticipated period-to-period fluctuations in financial results;
- litigation or threat of litigation;
- failure to achieve, or changes in, financial estimates by securities analysts;

- new or existing products or services or technological innovations by the Corporation or its competitors;
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- comments or opinions by securities analysts or major shareholders;
- conditions or trends in the pharmaceutical, biotechnology and life science industries;
- significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- results of, and developments in, the Corporation's research and development efforts, including results and adequacy of, and developments in, its clinical trials and applications for regulatory approval;
- additions or departures of key personnel;
- sales of the Corporation's common shares, including by holders of the notes on conversion or repayment by the Corporation in common shares;
- economic and other external factors or disasters or crises;
- limited daily trading volume; and
- developments regarding the Corporation's patents or other intellectual property or that of its competitors.

In addition, the securities markets in the United States and Canada have recently experienced a high level of price and volume volatility, and the market price of securities of biotechnology companies have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. In addition, because of the limited public float, there may be limited liquidity for the Corporation's common shares. It is expected that such fluctuations in price and limited liquidity will continue in the foreseeable future which may make it difficult for a shareholder to sell shares at a price equal to or above the price at which the shares were purchased.

**There may not be an active, liquid market for the Corporation's common shares.**

There is no guarantee that an active trading market for the Corporation's common shares will be maintained on AMEX or the TSX. Investors may not be able to sell their shares quickly or at the latest market price if trading in its common shares is not active.

**If there are substantial sales of the Corporation's common shares, the market price of its common shares could decline.**

Sales of substantial numbers of the Corporation's common shares could cause a decline in the market price of its common shares. Any sales by existing shareholders or holders of options or warrants may have an adverse effect on the Corporation's ability to raise capital and may adversely affect the market price of its common shares.

**The Corporation may be unable to meet its obligations under the outstanding Credit Facility.**

As of May 31, 2007, the Corporation had approximately US\$15.84 million of principal indebtedness outstanding under the Credit Facility, which bears interest at one-month LIBOR plus 6.5 percent per annum. The term of the Credit Facility is over 42 months, with interest due and payable at commencement of the loan payable on the first day of the month. Commencing in June 2007, principal is payable monthly on a straight-line amortization schedule over 33 consecutive monthly installments. There is no guarantee that the Corporation will be able to meet its obligations under the Credit Facility.

**The Corporation has no history of paying dividends, does not intend to pay dividends in the foreseeable future and may never pay dividends.**

Since incorporation, the Corporation has not paid any cash or other dividends on its common shares and do not expect to pay such dividends in the foreseeable future as all available funds will be invested to



finance the growth of its business. The Corporation will need to achieve profitability prior to any dividends being declared, which may never happen.

**The Corporation is likely to be classified as a passive foreign investment company for United States income tax purposes, which could have significant and adverse tax consequences to United States holders of its common shares.**

The Corporation was a passive foreign investment company ( PFIC ) in the 2006 taxable year and the Corporation believes there is a significant likelihood that it will be classified as a PFIC in the 2007 taxable year and possibly in subsequent years. The Corporation's classification as a PFIC could have significant and adverse tax consequences for United States holders of its common shares. It may be possible for United States holders of the Corporation's common shares to mitigate these consequences by making a so-called "qualified electing fund" election. (See "Certain Income Tax Consequences" below.)

**The Corporation has adopted a shareholder rights plan.**

The Corporation has adopted a shareholder rights plan. The provisions of such plan could make it more difficult for a third party to acquire a majority of the Corporation's outstanding common shares, the effect of which may be to deprive the Corporation's shareholders of a control premium that might otherwise be realized in connection with an acquisition of its common shares.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

On December 22, 1999, the Corporation was formed by the amalgamation of Medicure Inc. with Lariat Capital Inc. pursuant to the provisions of the *Business Corporations Act* (Alberta). The Corporation was continued from Alberta to the federal jurisdiction by Certificate of Continuance issued pursuant to the provisions of the *Canada Business Corporations Act* on February 23, 2000.

The Corporation's current legal and commercial name is Medicure Inc. and its current registered office is 3<sup>0</sup> Floor, 360 Main Street, Winnipeg, Manitoba, Canada, R3C 4G1. The Corporation's head office is located at 4-1200 Waverley Street, Winnipeg, Manitoba, Canada, R3T 0P4.

In August 2006, the Corporation acquired the U.S. rights to its first commercial product, Aggrastat® Injection (tirofiban hydrochloride) in the United States and its territories (Puerto Rico, Virgin Islands, and Guam) for US\$19,000,000. To finance the acquisition, the Company entered into the Credit Facility totaling US\$15.84 million with a syndicate of lenders, led by Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., and including Silicon Valley Bank and Oxford Finance Corporation. Interest is payable monthly at one-month LIBOR plus 6.5 percent per annum. Commencing in June 2007, principal of US\$480,000 is payable monthly with the term loan maturing February 1, 2010. The Credit Facility is secured by a security interest in all existing and after-acquired assets of the Company including intellectual property. Subsequent to year end, the Corporation signed a non-binding term sheet dated August 20, 2007 to monetize a percentage of the Corporation's current and potential future commercial revenues with Manchester Securities Corp., an affiliate of Elliott Associates, L.P. (Elliott) (see Item 8B "Financial Information - Significant Changes" below). The proposed financing is subject to a number of closing conditions, including the amendment of the Corporation's credit agreement dated August 8, 2006 and the execution of a definitive agreement. The transaction is expected to close in September 2007.

Since its amalgamation, the Corporation, directly and through certain research contracts, has been engaged in the research and development of human therapeutic drugs for cardiovascular disease. In certain instances, therapeutics developed by the Corporation may also provide benefit for other diseases. The Corporation's lead product, MC-1, is based upon scientific discoveries led by Dr. Naranjan S. Dhalla of The Institute of Cardiovascular Sciences and the Department of Physiology, of the Faculty of Medicine, the University of Manitoba in Winnipeg, Manitoba, Canada. The Corporation's focus is on the clinical development and commercialization of MC-1 for treatment of cardiovascular disease and on the discovery and development of other cardiovascular therapeutics.

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## B. Business Overview

### *Plan of Operation*

The Corporation is a biopharmaceutical company focused on the discovery and development of therapeutics for various large-market, unmet cardiovascular needs.

The following table summarizes the Corporation's clinical product candidates, their therapeutic focus and their stage of development.

<i>Product Candidate</i>	<i>Therapeutic focus</i>	<i>Stage of Development</i>
AGGRASTAT®	Acute Coronary Syndrome	Currently marketed
MC-1	Coronary Artery Bypass Graft Surgery	Phase III
MC-1	Acute Coronary Syndrome	Phase II complete*
MC-1	Stroke	Phase I complete
MC-4232	Diabetes/Hypertension	Phase II complete
MC-4262	Metabolic Syndrome/Hypertension	Phase I complete

\* Completed MEND-1 angioplasty study, but intend to develop for related indication of ACS.

On August 8, 2006, the Company acquired the U.S. rights to its first commercial product, AGGRASTAT® Injection (tirofiban hydrochloride) in the United States and its territories (Puerto Rico, Virgin Islands, and Guam). AGGRASTAT®, a glycoprotein GP IIb/IIIa receptor antagonist, is used for the treatment of acute coronary syndrome (ACS) including unstable angina, which is characterized by chest pain when one is at rest, and non-Q-wave myocardial infarction (MI). The Company launched product sales and marketing efforts, with a targeted, dedicated cardiovascular sales force and medical science liaison organization during the second quarter of fiscal 2007. AGGRASTAT® is complementary to the Company's cardiovascular strategy and provides the Company with a presence in the marketplace.

The Corporation's research and development program is currently focused on the clinical development of the Corporation's lead clinical products, MC-1 and MC-4232, and the discovery and development of other drug candidates.

MC-1, the Corporation's lead product, is being developed as a treatment to reduce injury from blockages of blood to the heart (i.e. myocardial ischemia, associated with heart attacks, angina and arrhythmia) and the brain (i.e. ischemic stroke) and to prevent injury from ischemic reperfusion injury. Ischemic reperfusion injury occurs when blood flow to an organ is suddenly resumed following a stoppage, as occurs during medical procedures such as heart surgery. The results from the Phase II MEND-1 and MEND-CABG studies demonstrated the cardioprotective effects and safety of MC-1 in high-risk patients undergoing angioplasty and bypass surgery, respectively.

In parallel to the development of MC-1 and MC-4232, the Corporation has a drug discovery program the objective of which is to discover and in-license new drug candidates for advancement into clinical development and commercialization for unmet cardiovascular market needs. One element of the program involves the synthesis and evaluation of compounds that are structurally related to MC-1. The Corporation has already produced several groups of candidate compounds using this approach and plans to build a pipeline of additional preclinical products over the next several years. Certain of the Corporation's new compounds have shown positive effects in *in vitro* and *in vivo* efficacy studies and are currently being studied further to evaluate their commercial potential. Some patents have been issued for these compounds and additional patent applications have been, and are expected to be filed for all novel candidate compounds, to the extent commercially and reasonably possible, protecting their composition of matter and

use in a treatment of targeted cardiovascular and related diseases.

The Corporation is also evaluating other cardiovascular drug candidates for potential license with the objective of further broadening its product and patent portfolio.

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The Corporation anticipates that no substantial material acquisition of equipment or facilities will take place in the coming year.

It is the Corporation's intention to actively search for a partnership with a large pharmaceutical company. Such a partnership would conceivably provide funding for Phase III clinical trials, add experience to the product development process and bring in overall marketing expertise. While the Corporation has had informal discussions with potential partners, no formal agreement, or letter of intent, has been entered into by the Corporation as of the date hereof.

### ***Potential Products in Development Stage***

As previously stated, one of the Corporation's primary focuses is the clinical development and commercialization of its lead products, MC-1 and MC-4232.

The Corporation's lead product, MC-1, is a small molecule therapeutic that has a broad range of potential applications from treatment of acute cardiovascular events (such as ACS, CABG and heart attacks), to chronic conditions (such as hypertension and metabolic syndrome). MC-1 is a cardioprotective drug that in both preclinical and clinical studies has shown potential for treating various forms of CV diseases and stroke. MC-1 stands to be a major first-to-market product in a new class of drug.

The Corporation announced positive results from a MEND-1 Phase II clinical study in January 2003. The MEND-1 trial was a proof of principle study to establish the efficacy and safety of the Corporation's lead compound, MC-1 as a cardioprotective treatment to reduce damage to the heart associated with acute ischemic and reperfusion injury. The trial enrolled a total of 60 high-risk patients undergoing percutaneous coronary intervention (PCI), and was conducted at four medical centres in Canada and the USA.

The primary endpoint, peri-procedural infarct size (as determined by area under the curve (AUC) of CK-MB within 24 hours following initiation of elective PCI) was significantly reduced by approximately 33% in the MC-1 treatment group. The results from the MEND-1 study provided the Corporation with the necessary positive data to proceed with larger, Phase II trial in Coronary Artery Bypass Graft (CABG) procedures.

The MEND-CABG study was a Phase II placebo controlled, double-blinded study of MC-1, designed to evaluate the potential of the Corporation's lead drug in reducing ischemic damage resulting from coronary artery bypass graft (CABG) procedures. The trial was conducted at 42 cardiac centres throughout Canada and the US and is managed by Montreal Heart Institute and Duke Clinical Research Institute (DCRI) and enrolled 901 patients. The Corporation reported positive top-line results up to post-operative day (POD) 30 in December 2005. The results showed that the 250 mg dose of MC-1 had a statistically significant reduction in the composite of events driven by a 46.9% reduction in non-fatal heart attacks (peak CK-MB  $\geq 100$ ng/ml). Patients were also followed up to POD 90, which was 60 days after their last drug treatment. The treatment effect at POD 30 with MC-1 was maintained throughout the follow up period. The safety analysis from MEND-CABG also demonstrated MC-1 was safe and well tolerated. The Corporation plans on initiating the Phase III MEND-CABG II study in the first half of fiscal 2007.

The Company initiated a single confirmatory Phase III study in patients undergoing CABG procedures during the second quarter of fiscal 2007. The Company is conducting the MEND-CABG II trial at over 120 cardiac centres throughout North America and Europe and is managed by Duke Clinical Research Institute (DCRI) and Montreal Heart Institute and will enroll up to 3,000 patients. The Company expects to complete enrollment by November 2007 and announce results in the second half of fiscal 2008.

Additional preclinical studies with MC-1 also suggest its potential value in treatment of stroke. During 2002, preclinical studies were carried out under the direction of Dr. Ashfaq Shuaib, Director of the Division of Neurology at

the WC Mackenzie Health Sciences Centre of the University of Alberta. MC-1 reduced infarct size (damaged region) in the brain and preserved neurological function in an animal model. Preliminary studies also indicate that beneficial effects may even be obtained with treatment several hours after the onset of ischemia. A combination of MC-1 and TPA was also shown to be an effective treatment. There was no indication that MC-1 alone increased the incidence of hemorrhage,

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suggesting it would be a safe treatment for stroke patients. Medicure plans further research on stroke, hypertension and other potential uses.

Medicure's first combination product is MC-4232, a drug that combines the cardio-protective benefit of MC-1 with the ACE Inhibitor, lisinopril, for the treatment of patients with co-existing diabetes and hypertension and related cardiovascular problems. The co-existing conditions of diabetes and hypertension present a major increase in risk of cardiovascular complications, including coronary artery disease, peripheral artery disease, retinopathy, nephropathy and stroke. In addition to cardioprotection, this product has also demonstrated potential to provide further blood pressure lowering effects, reduction in glycated hemoglobin (HbA1c), the primary measure of blood glucose control and reduction in triglyceride levels.

In September 2005, the Corporation announced positive results from the Phase II MATCHED study. The MATCHED (MC-1 and ACE Therapeutic Combination for Hypertensive Diabetics) study evaluated MC-1 alone and in combination with an lisinopril encompassing 120 patients with co-existing diabetes and hypertension. MATCHED was a randomized, parallel group, cross-over, double-blind, placebo-controlled comparison of 100, 300 or 1000 mg of MC-1 alone and in combination with 20 mg of lisinopril. The results demonstrated the positive clinical effects of MC-4232 on important primary and secondary blood pressure and metabolic endpoints. The Corporation plans on initiating further clinical studies as a result of these positive results.

The Corporation has also initiated the development program for its second combination product, MC-4262, a drug combining MC-1 and an Angiotensin Receptor Blocker (ARB), one of the world's ten largest pharmaceutical drug classes by revenue. The patented new product, is being developed for use in the treatment of hypertension in patients whose condition is complicated with metabolic syndrome resulting in increased cardiovascular risk.

While MC-1 and MC-4232 development proceeds, the Corporation is seeking to develop or acquire additional cardiovascular therapeutics with commercial potential to meet a market need. The Corporation's objective is to establish a pipeline of novel cardiovascular therapeutics to ensure the Corporation's long-term growth and security. The Corporation is taking a two-pronged approach to this effort, combining the efforts of a drug discovery program with strategic licensing of promising new compounds from other research groups.

The Corporation's drug discovery program has produced several families of new compounds that have shown promising effects in *in vitro* and/or *in vivo* studies. From these compounds, the Corporation has thus far identified certain candidates, as having potential for further development. These compounds, the chemical identities of which are being held confidential while patents are pending, will undergo further *in vitro* analysis and *in vivo* animal testing on disease models and for bioavailability.

According to the *American Heart Association*, cardiovascular disease is the most prevalent serious disease in the United States, affecting approximately 79.4 million people. According to the *American Heart Association*, approximately one in three Americans have some form of cardiovascular disease. In 2002, cardiovascular disease was the underlying or contributing cause in 58% of all deaths in the United States.<sup>1</sup>

The Corporation is focusing its initial drug discovery and development efforts on meeting unmet needs in the cardiovascular and stroke market. The Corporation is advancing its lead product, MC-1, through clinical testing with the intention of commercializing it for treatment of (1) ischemic reperfusion injury (associated with common procedures such as angioplasty and coronary bypass surgery and stroke); and (2) myocardial ischemia, including heart attacks, angina and other related disorders.

The Corporation has various compounds currently in early stage research screening. Compounds developed by the chemistry group will be advanced through the following steps based on their successful advancement through early

stage screening; (1) in vitro screening, (2) in vivo screening in an appropriate disease model, (3) in vivo toxicity screening, (4) dose response confirmation of efficacy testing in vivo,

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<sup>1</sup> American Heart Association, Heart Disease and Stroke Statistics - 2007 Update.

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(5) preclinical, GLP toxicity and pharmacokinetics testing, (6) Phase I human testing, (7) Phase II human, (8) Phase III human, and (9) Filing of NDA in United States and NDS in Canada to request the right to commercialize. At the present time the most advanced product is in stage 4 of this testing continuum, but no estimate can be made as to when a certain product may advance to the human clinical testing stage.

As at May 31, 2007, the Corporation had 38 issued United States patents (see Item 5 Operating and Financial Review and Prospects C. Research and Development, Patents and Licenses, Etc. below).

### ***Competitors Current Products***

There are numerous products on the market for treatment of cardiovascular disorders, most of which are marketed by large pharmaceutical companies.

It is recognized that cardiovascular treatments have been of great benefit in reducing mortality and morbidity from a range of conditions. The existing cardiovascular drugs can be categorized into several main drug classes, as distinguished by their mechanism of action. Some of the primary drug classes include: ACE Inhibitors (2005 US sales estimated at US\$2.2 billion), Angiotensin II Inhibitors (2005 US sales estimated US\$2.9 billion), oral anti-platelets (2005 US sales estimated US\$3.8 billion), Beta-Blockers (2005 US sales estimated at US\$2.1 billion), and Calcium Channel Blockers (2005 US sales estimated at US\$4.6 billion), each class has particular benefits as well as an array of alternative products. Cross-use of drugs between different types of cardiovascular disease categories makes it difficult to differentiate sales by the more specific market segment (such as for myocardial infarction, ischemic reperfusion injury, etc.).

Despite the development of various effective products, pharmaceutical companies carefully monitor developments in the field and continually attempt to bring in new major products. This is in part driven by the rise of generic products that substantially reduce profit margins for products as they come off patent. Competition is most intense in cardiovascular markets like hypertension where there are many treatment options. Large pharmaceutical companies are most interested in finding new treatment options for inadequately treated conditions such as those targeted by the Corporation.

Despite the number of cardiovascular products, the Corporation has identified certain remaining unmet therapy needs for certain forms of cardiovascular disease. For example, physicians recognize the current lack of effective products for reducing ischemic reperfusion injury. This is a very real clinical problem and a significant market is available for a product that would effectively protect against this injury that results from a variety of surgical procedures. Similarly, although current treatments are in many cases able to restore blood flow to the heart muscle following a heart attack (myocardial ischemia), there remains a need for products that reduce the amount of damage and scarring that results from the blockage. Other large cardiovascular markets targeted by the Corporation that require improved therapeutics are stroke and certain forms of hypertension.

Ischemic stroke is damage to the brain caused by a sudden reduction in blood supply, most often due to blood clots lodging in major arteries of the brain. Stroke ranks as the third leading cause of death in North America, behind diseases of the heart and cancer. It is also a leading cause, of long term disability in the U.S.

To date, the only FDA approved stroke therapeutic is tissue plasminogen activator (TPA), a treatment that helps dissolve arterial obstructions. Unfortunately, TPA is typically available to less than 10% of stroke patients due to the increased risk of hemorrhage and the narrow therapeutic time frame during which the drug can be applied.

### ***Competitors Products in Development***

Many companies, including large pharmaceutical and biotechnology companies, are conducting development of products that are intended to address a same or similar medical need. Many of these companies have much large financial and other resources than the Corporation does, including those related to research and development, manufacturing, and sales and marketing. The Corporation also

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faces competition in recruiting scientific personnel from colleges, universities, agencies, and research organizations who seek patent protection and licensing agreements for the technologies they develop.

### ***Competitive Strategy and Position***

As stated, the Corporation is primarily focusing on developing MC-1 for myocardial ischemia and reperfusion injury. The Corporation is focusing initially on these markets because of preclinical and clinical evidence supporting the product's efficacy in these applications and, therefore, these applications have high potential for showing MC-1's clinical benefit. The clinical need for a product with this activity will also be considered by regulatory authorities (principally the FDA and also the TPD). Although MC-1 shows potential for treatment of other cardiovascular diseases, these uses are not being addressed as a first priority due to factors including the cost of clinical trials and the more intense competitive nature of these markets.

It is the Corporation's intention to secure a partnership with a large pharmaceutical company. Such a partnership would provide funding for clinical development, add experience to the product development process and provide market positioning expertise. While the Corporation has had informal discussions with potential partners in this regard, no formal agreement or letter of intent has been entered into by the Corporation as of the date hereof.

### **C. Organizational Structure**

Medicure International Inc., a wholly owned subsidiary of the Corporation, was incorporated pursuant to the laws of Barbados, West Indies, on May 23, 2000. Medicure International Inc.'s registered office is located at Whitepark House, White Park Road, Bridgetown, Barbados. Medicure International Inc.'s head office is located at 2nd Street, Holetown, St. James, Barbados.

Medicure Pharma Inc., a wholly owned subsidiary of the Corporation, was incorporated pursuant to the laws of the State of Delaware, United States of America, on September 30, 2005. Medicure Pharma Inc.'s registered office is 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808. Medicure Pharma Inc.'s head office is located at 200 Cottontail Lane, Somerset, NJ, 08873.

American Cardio Therapeutics Inc., a company that is 49% owned by Medicure Pharma Inc., was incorporated pursuant to the laws of the State of Delaware, United States of America, on September 30, 2005. American Cardio Therapeutics Inc.'s registered office is 2711 Centerville Road, Suite 400, Wilmington, Delaware, 19808.

Medicure Europe Limited, a wholly owned subsidiary of the Corporation, was incorporated pursuant to the laws of the United Kingdom, on May 19, 2006. Medicure Europe Limited's registered office is located at City House, 126-130 Hills Road, Cambridge, CB2 1RY.

As at May 31, 2007, American Cardio Therapeutics Inc. was involved in no material transactions.

The following diagram illustrates the relationship between the Corporation its subsidiaries:



## **D. Property, Plants and Equipment**

### *Office Space*

The Corporation has use of approximately 4,000 square feet of office space provided by Waverley Business and Science Centre Inc. as part of its business services contract. The office is located in Winnipeg, Manitoba.

### *Research Facilities*

CanAm leases 10,700 square feet of office and laboratory space at a facility in Winnipeg, Manitoba. Biological, chemistry, and analytical research for the Corporation take place at that facility.

## **ITEM 4A. UNRESOLVED STAFF COMMENTS**

The Corporation is an accelerated filer as defined in Rule 12b-2 under the *Securities Exchange Act of 1934*. There are no written comments which have been provided by the staff of the Securities and Exchange Commission regarding the Corporation's periodic reports under that Act during the fiscal year ended May 31, 2007 and there are no unresolved comments as of the date of the filing of this Annual Report with the Commission.

## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

This section contains forward-looking statements involving risks and uncertainties. The Corporation's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under part Item 3 - Key Information - D. Risk Factors. The following discussion of the financial condition, changes in financial conditions and results of operations of the Corporation for the years ended May 31, 2007, May 31, 2006 and May 31, 2005 should be read in conjunction with the consolidated financial statements of the Corporation. The Corporation's consolidated financial statements are presented in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ( GAAP ) included under Item 17 to this annual report. Material measurement differences between Canadian and U.S. GAAP, as applicable to the Corporation, are set forth in note 13 to the consolidated financial statements of the Corporation included herein.

### **Critical Accounting Estimates**

The Corporation's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ( Canadian GAAP ). A reconciliation of amounts to present in accordance with United States generally accepted accounting principles ( US GAAP ) is described in note 13 to the audited consolidated financial statements for the year ended May 31, 2007. These accounting principles require management to make certain estimates and assumptions. Management believes that the estimates and assumptions upon which the Corporation relies are reasonable based upon information available at the time these estimates and assumptions are made. Actual results could differ from these estimates. Future estimates and assumptions may lead to different judgments than those applied in the preparation of these consolidated financial statements. Areas of significant estimates include revenue recognition, research and development costs, clinical trial expenses, the assessment of net recoverable value of intangible assets, income taxes and stock-based compensation.

### *Revenue recognition*

The Company recognizes product revenue when substantially all of the risks and rewards of ownership have transferred to the customer and collection is reasonably assured. Depending on specific sales terms, revenue is

recognized upon product delivery, upon customer acceptance and when no significant contractual obligations remain. As is common practice in the pharmaceutical industry, the Company's sales are made to pharmaceutical wholesalers for further distribution to end consumers. As such, the Company's product revenue recognized may be less or greater than underlying demand for the product.

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Net sales reflect reduction of gross sales at the time of initial sales recognition for estimated wholesaler chargebacks, discounts, allowances for product returns, and other rebates. In determining the amounts of certain of these allowances and accruals, the Company uses estimates. The Company estimates chargebacks, discounts, and other rebates using the following factors: contract prices and terms with customers, estimated customer and wholesaler inventory levels, and average contractual chargeback rates.

Interest income is recognized as earned.

#### *Research and development costs*

All costs of research activities are expensed in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless a development project meets stringent criteria for cost deferral and amortization. The Corporation assesses whether these costs have met the relevant criteria for deferral and amortization at each reporting date. No development costs have been deferred to date.

#### *Clinical trial expenses*

Clinical trial expenses are a component of the Company's research and development costs. These expenses include fees paid to contract research organizations, clinical sites, and other organizations who conduct development activities on the Company's behalf. The amount of clinical trial expenses recognized in a period related to clinical agreements are based on estimates of the work performed using an accrual basis of accounting. These estimates incorporate factors such as patient enrollment, services provided, contractual terms, and prior experience with similar contracts.

#### *Intangible assets*

Costs incurred in obtaining patents are capitalized and amortized upon issuance on a straight-line basis over the remaining legal life of the respective patents, being approximately twenty years, or their economic life, if shorter. The cost of servicing the Company's patents is expensed as incurred. Intangible assets are recorded at acquisition cost and are amortized on a straight-line basis based on the following estimated useful lives:

Technology license	8 years
Patents	5-20 years
Trademark	10 years
Customer list	10 years

The Company determines the estimated useful lives of intangible assets based on a number of factors, including: legal, regulatory or contractual limitations; known technological advances; anticipated demand; and the existence or absence of competition. A significant change in any of these factors could require a revision of the expected useful life of the intangible asset, which could have a material impact on the Company's results of operations through an increase to amortization.

On a regular basis, management reviews the valuation of intangible assets taking into consideration any events and circumstances which may impair their recoverable value including expected cash flows, the potential benefit the Company expects to derive from the costs incurred to date and the Company's ongoing development plans. A change in any of these assumptions could produce a different fair value, which could have a material impact on the Company's results of operations.

#### *Income Taxes*

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. Given the Company's history of net losses and expected future losses, the Company is of the opinion that it is more likely than not that these tax assets will not be realized in the foreseeable future and therefore, a full

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valuation allowance has been recorded against these income tax assets. As a result, no future income tax assets or liabilities are recorded on the Company's balance sheets.

### *Stock-based compensation*

The Corporation has a stock option plan for its directors, management, consultants, and employees. Compensation expense is recorded for stock options issued to employees and non employees using the fair value method. The Corporation must calculate the fair value of stock options issued and amortize the fair value to stock compensation expense over the vesting period, and adjust the amortization for stock option forfeitures and cancellations. The Corporation uses the Black-Scholes model to calculate the fair value of stock options issued which requires that certain assumptions including the expected life of the option and expected volatility of the stock be estimated at the time that the options are issued. The Corporation amortizes the fair value using the accelerated method over the vesting period of the options, generally a period of three years. The factors included in the Black-Scholes model are reasonably likely to change from period to period due to changes in the Corporation's stock price and external factors, as further stock options are issued and as adjustments are made to previous calculations for unvested stock option forfeitures and cancellations.

The stock-based compensation recorded by the Corporation is a critical accounting estimate because of the value of compensation recorded, the volume of the Corporation's stock option activity, and the many assumptions that are required to be made to calculate the compensation expense. The Black-Scholes model is not the only permitted model to calculate the fair value of stock options. A different model, such as the binomial model, as well as any changes to the assumptions made may result in a different stock compensation expense calculation. The Corporation recorded stock compensation expense in fiscal 2007 of \$1,025,310 (2006 - \$745,570; 2005 - \$504,878).

## **A. Operating Results**

### *General*

The Corporation has concentrated primarily on research and development and has yet to and may never derive any revenues from its clinical products. The Corporation has a limited operating history and its prospects must be considered in light of the risks, expenses and difficulties frequently encountered with the establishment of a business in a highly competitive industry, characterized by frequent new product introductions. The Corporation has historically incurred net losses and anticipates that such losses will increase as it continues its development and clinical trials and eventually seeks regulatory approval for the sale of its products.

The Corporation believes it has sufficient funds on hand to complete the Phase III clinical trial involving MC-1. As discussed in Note 1 of the consolidated financial statements of the Corporation, however, the Corporation's ability to continue as a going concern is dependent on its ability to obtain sufficient funds to conduct the remainder of its clinical trials and to successfully commercialize its products. Failure to obtain further financing may require the Corporation to reduce substantially or eliminate expenditures for research and development, testing including further clinical trials, and production and marketing of its proposed products. Based on the Corporation's current plans, the Corporation's available working capital will be sufficient into the first half of fiscal 2009.

### **Year Ended May 31, 2007 Compared to the Year Ended May 31, 2006**

Net product sales for fiscal 2007 were \$5,945,000, compared to nil in fiscal 2006. Net product sales reflect reduction of gross sales at the time of initial sales recognition for estimated wholesaler chargebacks, returns and discounts. The Company began recognizing revenue for AGGRASTAT® effective August 9, 2006, the date following its acquisition. The Company currently sells AGGRASTAT® to drug wholesalers. These wholesalers subsequently sell

AGGRASTAT® to the hospitals where health care providers administer the drug to patients. Wholesaler management decisions to increase or decrease their inventory of AGGRASTAT® may result in sales of AGGRASTAT® to wholesalers that do not track directly with demand for the product at hospitals. The Corporation only began selling AGGRASTAT® in August 2006, and wholesaler buying patterns have sometimes been unpredictable.

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Cost of goods sold for fiscal 2007 were \$388,000, compared to nil in fiscal 2006. Cost of goods sold represents direct product costs associated with AGGRASTAT® and royalties due to Merck & Co., Inc. based on net sales of AGGRASTAT®. Amortization of the related acquired AGGRASTAT® intangible assets is separately discussed below. Royalties are payable to Merck & Co., Inc., based on net sales of AGGRASTAT® and commenced in January 2007 and will continue until the expiration of the last to expire of the assigned patents. The calculation of royalties due is based on a sliding scale dependant on reaching certain net sales milestones. Cost of goods sold will vary from quarter to quarter, depending on the product mix, production costs, and sales levels.

Selling, general, and administrative expenditures for fiscal 2007 were \$11,048,000, compared to \$2,858,000 in fiscal 2006. Selling, general, and administrative expenditures increased during the 2007 fiscal year primarily as a result of the Company's acquisition and launch of AGGRASTAT® during the first half of the year. Selling, general, and administrative expenditures related to AGGRASTAT® were \$6,716,000 in fiscal 2007, compared to nil in fiscal 2006. Selling, general, and administrative expenditures for AGGRASTAT® are primarily related to field selling expenses, product promotion costs and administrative expenses. Other selling, general, and administrative expenditures in fiscal 2007 were \$4,332,000, compared to \$2,858,000 in fiscal 2006. Other selling, general, and administrative expenditures are higher in the current fiscal year due to increased business development activities, employee payroll, and stock-based compensation expense.

Research and development expenditures for fiscal 2007 were \$23,336,000, compared to \$10,219,000 in fiscal 2006, which is an increase of 128%. As expected, research and development expenditures were significantly higher as compared to the same periods in fiscal 2006 due to the initiation and commencement of enrollment of the Phase 3 MEND-CABG II clinical trial in November 2006.

*The MEND-CABG II Study:* The Company initiated a single confirmatory Phase 3 study in patients undergoing CABG procedures during the second quarter of fiscal 2007. The Company is conducting the MEND-CABG II trial at over 120 cardiac centres throughout North America and Europe and is managed by Duke Clinical Research Institute (DCRI) and Montreal Heart Institute and will enroll up to 3,000 patients. The Company expects to complete enrollment by November 2007 and announce results in the second half of fiscal 2008.

Cost incurred during the current year related to coordinating the MEND-CABG II study including costs associated with contract negotiating, IRB fees, regulatory activity, patient costs, monitoring costs, laboratory tests, manufacturing costs and administration costs. For the year ended May 31, 2007, total expenditures for the MC-1 CABG program were \$20,258,000 as compared to \$6,116,000 in fiscal 2006.

*The MATCHED Study:* The study evaluated MC-1 alone and in combination with an ACE inhibitor encompassing 120 patients with co-existing diabetes and hypertension. The study was designed as a Phase 2 trial to determine the optimal dose and endpoint for Phase 3 development of MC-4232. MATCHED was a randomized, parallel group, cross-over, double-blind, placebo-controlled comparison of 100, 300 or 1000 mg of MC-1 alone and in combination with 20 mg of lisinopril. The results demonstrated the positive clinical effects of MC-4232 on important primary and secondary blood pressure and metabolic endpoints.

Cost incurred during the current year related to data analysis and planning for future clinical development. For the year ended May 31, 2007, total expenditures for the MC-4232 program were \$113,000 as compared to \$1,768,000 in fiscal 2006.

Refundable investment tax credits for fiscal 2007 were \$172,000, compared to \$478,000 in fiscal 2006. The recording of refundable ITCs is solely related to research and development spending in Quebec, which are eligible for refundable tax credits. The majority of the qualifying expenditures related to the MEND-CABG study.

Amortization for the year ended May 31, 2007 was \$2,289,000, compared to \$107,000 in fiscal 2006. The increase in amortization in fiscal 2007 compared to fiscal 2006 is the result of increased amortization

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of intangible assets associated with the Company's acquisition of AGGRASTAT® during the first quarter of fiscal 2007.

Interest and other income for the year ended May 31, 2007 was \$1,591,000, compared to \$300,000 in fiscal 2006. Interest and other income in fiscal 2007 is higher than fiscal 2006 due to higher average cash and cash equivalents balance, largely due to the equity financings that the Company completed during the fourth quarter of fiscal 2006 and the third quarter of fiscal 2007.

Interest expense for fiscal 2007 was \$1,958,000, compared to nil in fiscal 2006. The increase in interest expense in fiscal 2007 is the result of the Company securing a US\$15,840,000 term loan facility related to the acquisition of AGGRASTAT® during the first quarter of fiscal 2007.

Foreign exchange loss for the year ended May 31, 2007 was \$392,000, compared to \$200,000 in fiscal 2006. The foreign exchange loss for fiscal 2007 is primarily a result of the weakening of the U.S. dollar relative to the Canadian dollar during this period, particularly in the fiscal fourth quarter. While the functional currency of the Company is the Canadian dollar, the Company has significant holdings of U.S. dollars in anticipation of the U.S. dollar denominated clinical trial costs for the Phase 3 MEND-CABG II study. This foreign exchange loss was partially offset by an unrealized foreign exchange gain incurred as a result of the Company's U.S. denominated term loan facility of US\$15,840,000.

For the year ended May 31, 2007, the Corporation recorded a consolidated net loss of \$31,703,000 or \$0.30 per share compared to a consolidated net loss of \$12,607,000 or \$0.17 per share for the year ended May 31, 2006. As discussed above, the consolidated net loss resulted mainly from the Company's clinical development program, including the Phase 3 MEND-CABG II study. The Company expects to incur a loss next year as it continues to invest in product research and development.

The weighted average number of common shares outstanding used to calculate basic and diluted loss per share increased to 104,879,404 for the year ended May 31, 2007 from 75,144,764 for the year ended May 31, 2006.

### **Year Ended May 31, 2006 Compared to the Year Ended May 31, 2005**

Interest and other income for fiscal 2006 totaled \$300,000 as compared to \$395,000 for fiscal 2005. Interest and other income in fiscal 2006 is lower than fiscal 2005 due to lower average cash and cash equivalents balance. The Corporation anticipates that investment income will continue to fluctuate in relation to cash and short term investment balances and interest yields.

Research and development expenditures decreased to \$10,219,000 in fiscal 2006 as compared to \$13,564,000 for fiscal 2005 and represent 80% of the Corporation's total expenditures in fiscal 2006. As expected, research and development expenditures were lower as compared to the same periods in fiscal 2005 due to the completion of the Phase II trial attributed to MC-1, called MEND-CABG and the Phase II MATCHED study with MC-4232 during fiscal 2006.

The MEND-CABG study was a Phase II placebo controlled, double-blinded study of MC-1, designed to evaluate the potential of the Corporation's lead drug in reducing ischemic damage resulting from CABG procedures. The trial was conducted at 42 cardiac centres throughout Canada and the US and is managed by Montreal Heart Institute and Duke Clinical Research Institute (DCRI) and enrolled 901 patients. The Corporation reported positive top-line results up to post-operative day (POD) 30 in December 2005. Patients were also followed up to POD 90, which was 60 days after their last drug treatment. The treatment effect at POD 30 with MC-1 was maintained throughout the follow up period. The safety analysis from MEND-CABG also demonstrated MC-1 was safe and well tolerated.

The Corporation expects to initiate a single confirmatory Phase III study in patients undergoing CABG procedures in the first half of fiscal 2007. The Corporation plans to conduct the trial at over 120 cardiac centres throughout North America and Europe and will be managed by Duke Clinical Research Institute (DCRI) and Montreal Heart Institute and will enroll up to 3,000 patients. For the year ended May 31, 2006, total expenditures for the MEND-CABG program were \$6,116,000 as compared to \$9,388,000 in fiscal 2005.

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The MATCHED (MC-1 and ACE Therapeutic Combination for Hypertensive Diabetics) study evaluated MC-1 alone and in combination with an ACE inhibitor encompassing 120 patients with co-existing diabetes and hypertension. The study was designed as a Phase II trial to determine the optimal dose and endpoint for Phase III development of MC-4232. MATCHED was a randomized, parallel group, crossover, double-blind, placebo-controlled comparison of 100, 300 or 1000 mg of MC-1 alone and in combination with 20 mg of lisinopril. The results demonstrated the positive clinical effects of MC-4232 on important primary and secondary blood pressure and metabolic endpoints.

For the year ended May 31, 2006, total expenditures for the MATCHED program were \$1,768,000 as compared to \$1,928,000 in fiscal 2005.

Research and development expenses are expected to increase significantly in fiscal 2007 as compared to fiscal 2006. This increase in expenditures is expected to result from the initiation of the Phase III MEND-CABG study in the first half of fiscal 2007.

General and administrative expenses include salaries and related costs for those employees not directly involved in research and development, but are required to support ongoing business development and corporate stewardship activities. The balance also includes professional fees such as legal, audit, investor and public relations and business development activities. General and administration expenses totaled \$2,858,000 for the year ended May 31, 2006, as compared to \$2,256,000 for the year ended May 31, 2005. The overall increase in costs during the fiscal year ended May 31, 2006 as compared to the same period in fiscal 2005 is primarily driven by increased business development and investor relations activities, professional fees and stock-based compensation expense. The Corporation expects higher levels of general and administrative expenditures in the fiscal year ending May 31, 2007 as compared to the same period in fiscal 2006.

Refundable investment tax credits for fiscal 2006 totaled \$478,000 as compared to \$553,000 for fiscal 2005. As Medicare is a public company, the federal investment tax credits ( ITCs ) for qualified Scientific Research and Experimental Development ( SR&ED ) expenditures are not refundable and are calculated at a rate of 20%. These ITCs can be applied to reduce future income taxes payable with a ten-year carry forward period. Certain eligible SR&ED expenditures incurred in Quebec qualify for Quebec refundable tax credits and are earned on payments made in Quebec for SR&ED labour, SR&ED contracts and to prescribed research centres.

The recording of refundable ITCs is solely related to research and development spending in Quebec, which are eligible for refundable tax credits. The majority of the qualifying expenditures related to the MEND-CABG study. The refundable ITCs recorded are based on management's estimate of amounts expected to be recovered and are subject to audit by taxation authorities. These amounts have been recorded as a recovery in expenses in the statement of operations.

Foreign exchange loss for fiscal 2006 totaled \$200,000 as compared to a gain of \$64,000 for fiscal 2005. The foreign exchange loss for fiscal year 2006 is primarily a result of the weakening of the U.S. dollar relative to the Canadian dollar during this period. While the functional currency of the Corporation is the Canadian dollar, the Corporation is holding U.S. dollars in anticipation of the U.S. dollar denominated clinical trial costs incurred as a result of the MEND-CABG study.

For the year ended May 31, 2006, the Corporation recorded a consolidated net loss of \$12,607,000 or \$0.17 per share compared to a consolidated net loss of \$14,866,000 or \$0.22 per share for the year ended May 31, 2005. As discussed above, the consolidated net loss resulted mainly from the Corporation's ongoing clinical development programs. The Corporation expects to incur a loss next year as it continues to invest in product research and development.

The weighted average number of common shares outstanding used to calculate basic and diluted loss per share increased to 75,144,764 for the year ended May 31, 2006 from 66,717,715 for the year ended May 31, 2005.

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## B. Liquidity and Capital Resources

Since the Company's inception, it has financed operations primarily from public and private sales of equity, debt financing, the exercise of warrants and stock options, and interest income on excess funds held.

Cash used in operating activities for fiscal 2007 was \$25,247,000, compared to \$12,678,000 for fiscal 2006, reflecting the larger loss in 2007. Cash used in operating activities was composed of net loss, add-backs or adjustments not involving cash and a net change in non-cash working items.

Cash provided by financing activities in fiscal 2007 was \$45,021,000, compared to \$41,252,000 in fiscal 2006. The main sources of cash in fiscal 2007 were net proceeds from public and private placement financings of \$27,577,000, compared to \$40,957,000 in fiscal 2006, and the debt financing associated with the Company's acquisition of AGGRASTAT® of US\$15,840,000 in fiscal 2007, compared to nil in fiscal 2006.

On August 8, 2006, the Company secured US\$15,840,000 in a term loan facility with various lenders to acquire the rights to AGGRASTAT® in the United States and its territories from MGI PHARMA, Inc. The term of the loan facility is over 42 months, with interest accruing at one-month LIBOR plus 6.5 percent per annum. Commencing in June 2007, principal is payable monthly on a straight-line amortization schedule over 33 consecutive monthly installments.

On December 22 and 28, 2006, the Company raised net proceeds of US\$25,900,000 through a private placement. The placement resulted in the issuance to investors of 19,923,044 common shares and warrants to purchase an additional 3,984,608 common shares. The purchase price of the common shares was \$1.30 per share, and the warrants are exercisable for a period of five years at an exercise price of \$1.70 per share.

The Corporation also raised \$287,000 from the exercise of stock options in fiscal 2007, compared to \$252,000 in fiscal 2006.

On August 20, 2007, the Corporation entered into a securities purchase agreement with an unrelated investor to raise gross proceeds of US\$15 million. Under the terms of the agreement, the Corporation intends to issue approximately 13.04 million common shares together with warrants to purchase approximately 3.9 million additional common shares (the common shares and warrants comprise the Units), at a price of US\$1.15 per Unit. The warrants have a five-year term and will have an exercise price of US\$1.50 each. The agreement is expected to close in September 2007, and is subject to standard closing conditions including regulatory approval. In a separate transaction, the Corporation has signed a non-binding term sheet dated August 20, 2007 to monetize a percentage of the Corporation's current and potential future commercial revenues with Manchester Securities Corp., an affiliate of Elliott Associates, L.P. (Elliott) for a US\$25 million up-front cash payment. Under the proposed terms, Elliott will receive an annual return that will be calculated as a percentage of AGGRASTAT® net sales subject to an escalating minimum annual return, until 2019. The minimum annual returns start at US\$2.5 million in 2007 and escalate to US\$6.9 million in 2016. Elliott will also receive the option to convert its rights based on AGGRASTAT® to MC-1 within six months after MC-1's commercialization, if achieved. The exact percentage of AGGRASTAT® or MC-1 revenue that Elliott will receive is tiered and declines as certain revenue levels are achieved. Upon conversion to MC-1, Elliott is entitled to a blended return of approximately 7 percent on the first US\$75 million in MC-1 revenues and 3 percent thereafter. Elliott's participation rights shall be secured by a first security interest in the intellectual property rights of the Corporation in AGGRASTAT® and MC-1 (subject to certain specified MC-1 lien release terms), the proceeds derived from the commercialization of AGGRASTAT® and MC-1 (including without limitation any royalties receivable derived from any licensing of AGGRASTAT® and MC-1 to any third party and accounts receivable from the sale of AGGRASTAT® and MC-1 products), and all intellectual, proprietary and other rights (including without limitation contractual promotion and licensing rights and benefits) associated with, or derived from, AGGRASTAT® and MC-1.

The proposed terms also include an option for the Corporation to terminate the agreement for a payment of US \$70 million to Elliott if the U.S. Food & Drug Administration approves MC-1 for sale to the public. The Corporation will also issue to Elliott ten-year warrants to purchase 1 million common shares at an exercise price of US\$1.26.

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The Elliott agreement is subject to a number of closing conditions, including the amendment, described below, of the Corporation's credit agreement dated August 8, 2006 and the execution of a definitive agreement. The transaction is expected to close in September 2007.

In conjunction with the financing transactions described above, the Corporation has agreed to an amendment with its existing lenders to certain of the covenants provided for in its credit agreement, dated August 8, 2006. The lenders and the Corporation have agreed, subject to certain conditions:

- i) From and after August 17, 2007, but no later than April 30, 2008, the Corporation shall receive additional cash for working capital in a total aggregate amount of at least US\$35 million from any and/or a combination of any of the sources described above, provided that (1) at least US\$15 million of such aggregate amount must be received by the Corporation no later than September 30, 2007 and (2) a further US\$15 million of such aggregate amount must be received by the Corporation no later than February 28, 2008 and (3) a further US\$5 million of such aggregate amount must be received by the Corporation no later than April 30, 2008. The Corporation intends that the additional cash to meet this test will come from the subscription agreement and term sheet described above.
- ii) To amend the credit agreement such that the Corporation is required to achieve the following minimum net revenue requirements from sales of AGGRASTAT®:
  - Calendar 2007 - nil
  - Calendar 2008 - US\$15 million
  - Calendar 2009 - US\$23 million
- iii) The Corporation will deposit US\$10 million in a cash collateral account to be held by Merrill Lynch Capital Inc. (Merrill), for the benefit of Merrill and the lenders, on closing of the financing transactions described above.

The ability of the Corporation to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on many factors, including, but not limited to, the actual closing of the above financings, including the completion of the appropriate amendment to its existing financing agreement, under the terms described above and meeting any applicable financial covenants on an ongoing basis.

Cash used in investing activities in fiscal 2007 was \$22,925,000, compared to \$1,244,000 in fiscal 2006. The increase was primarily due to the Company's acquisition of the rights to AGGRASTAT® in the United States and its territories in August 2006.

As at May 31, 2007, the Corporation had cash and cash equivalents totaling \$31,770,000 compared with \$34,920,000 at the previous year-end.

These funds are committed to short-term investments and as a result management does not believe that the fair value of these investments would be adversely impacted to any significant degree by a fluctuation in market interest rates. The total number of common shares issued and outstanding at May 31, 2007 was 116,314,509 as compared to 96,046,465 at May 31, 2006.

The main purpose of Phase III trials is to obtain definitive statistical evidence of the efficacy and safety of MC-1 and MC-4232 in order to support an application to the TPD and FDA for commercial approval.

If either MC-1 or MC-4232 is approved for marketing by the TPD and FDA, there will then potentially be follow-up studies (called Phase IV trials) that may need to be completed while the drug is being marketed, in order to adjust or

extend product claims. It is not possible to estimate the scope and size of any such studies that may be required.

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While MC-1 and MC-4232 progress through clinical trials, the Corporation will continue the drug development process. This process begins with initial product screening which should produce preliminary candidates for preclinical research. MC-5422 and MC-45308 are such candidates that have moved into the preclinical research stage. Once a drug candidate reaches this stage, it can cost in excess of \$1,000,000 to advance it to the clinical trial stage.

Besides public or private financings, the other major financings are planned to be through up front and milestone payments from a large pharmaceutical company that has partnered with the Corporation for clinical development and or marketing of the lead compound.

When additional funds are required, potential sources of financing include strategic relationships and public or private sales of the Corporation's common shares. The Corporation does not have any committed sources of financing at this time and it is uncertain whether additional funding will be available when the need arises on terms that will be acceptable to the Corporation. If funds are raised by selling additional common shares, or other securities convertible into common shares, the ownership interests of the Corporation's existing shareholders will be diluted. If the Corporation is unable to obtain financing when required, the Corporation would not be able to carry out its business plan, including further clinical trials of MC-1 and MC-4232. The Corporation would have to significantly limit its operations and business, and its financial condition and results of operations would be materially harmed.

At May 31, 2007, the Corporation had net working capital of \$21,129,422 compared to net working capital of \$34,197,234 at May 31, 2006. During the period ended August 22, 2007, a total of 80,000 stock options were exercised for proceeds of \$60,000.

At May 31, 2006, the Corporation had net working capital of \$34,197,234 compared to net working capital of \$5,926,134 at May 31, 2005. During the period ended August 10, 2006, a total of 55,000 stock options were exercised for proceeds of \$47,000.

The Corporation had long-term debt at May 31, 2007 totalling US\$15.84 million with a syndicate of lenders, led by Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., and including Silicon Valley Bank and Oxford Finance Corporation. The term of the Credit Facility is over 42 months, with interest accruing at one-month LIBOR plus 6.5 percent per annum. Commencing in June 2007, principal is payable monthly on a straight-line amortization schedule over 33 consecutive monthly installments. The Credit Facility is secured by a security interest in all existing and after-acquired assets of the Corporation including intellectual property.

### **C. Research and Development, Patents and Licenses, Etc.**

#### ***Research and Development***

Drug development and design begins with an idea, or theoretical concept for treating a given disorder. The idea is advanced through the drug design process, resulting in preliminary candidates that have theoretical potential. Candidates are improved to achieve the optimal effectiveness with limited toxicity. Following preclinical testing, products with the greatest potential become lead candidates and are advanced into clinical trials (human testing) with the intent of having them receive regulatory approval for marketing.

The Corporation has demonstrated the effectiveness of MC-1 in preclinical *in vivo* models of cardiovascular disease and Phase I and Phase II clinical trials. Additional preclinical studies may also be performed in order to evaluate other potential uses of MC-1 and to gather other data as may be necessary to support future clinical objectives.

*In vitro* and *in vivo* laboratory experiments to date have been used to study MC-1 therapeutic activity in myocardial ischemia, ischemic reperfusion injury, and hypertension. These experiments involved internationally recognized

models (including coronary artery ligation, Langendorff, reperfusion and hypertensive rat models), and analysis techniques (such as electrocardiogram and hemodynamic

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measurements, and electron microscopy). *In vivo* studies involve oral and/or intravenous administration of the drug dose.

While MC-1's development proceeds, novel chemical compounds will be synthesized or in-licensed and entered into further testing to evaluate their commercial potential. As previously set forth, the Corporation's drug discovery program is pursuing medicinal chemistry strategies with the objective of maximizing the probability of commercial potential. Novel chemical compounds are screened for commercial viability prior to advancement into preclinical testing. These studies are to determine bioavailability/distribution, safety and efficacy (on both *in vitro* and *in vivo* models).

For the period from inception on September 15, 1997 to May 31, 2007, the Corporation has expended approximately \$59,743,000 net of government assistance and investment tax credits, which aggregate approximately \$1,654,000, on the research and development of MC-1, MC-4232 and other compounds.

### ***Patents and Licenses***

The Corporation has been issued 38 patents from the United States Patent Office providing protection for certain uses of MC-1 and related compounds in treatment of cardiovascular diseases and other compounds for the use in cardiovascular disease. The Corporation has also filed 26 regular applications in the United States plus corresponding patent applications in other jurisdictions. The Corporation will continue to file patents to extend protection of MC-1 and for new compounds in development. The 38 patents issued to the Corporation are as follows:

Patent Number	Issue Date	Title
5,292,756	March 8, 1994	Novel Sulfonamide Fibrinogen Receptor Antagonists
5,504,090	April 2, 1996	Compositions and methods for the prevention and treatment of ischemia-reperfusion organ injury
5,658,929	August 19, 1997	Novel Sulfonamide Fibrinogen Receptor Antagonists
5,733,916	March 31, 1998	Prevention and treatment of ischemia-reperfusion and endotoxin-related injury using adenosine and purino receptor antagonists
5,733,919	March 31, 1998	Compositions for Inhibiting Platelet Aggregation
5,814,643	September 29, 1998	Novel Sulfonamide Fibrinogen Receptor Antagonists
5,880,136	March 9, 1999	Novel Sulfonamide Fibrinogen Receptor Antagonists
5,965,581	October 12, 1999	Compositions for Inhibiting Platelet Aggregation
5,972,967	October 26, 1999	Compositions for Inhibiting Platelet Aggregation
5,978,698	November 2, 1999	Angioplasty Procedure Using Nonionic Contrast Media
6,001,842	December 14, 1999	Compositions and methods for use in ischemia- reperfusion and endotoxin-related tissue injury
6,040,317	March 21, 2000	Novel Sulfonamide Fibrinogen Receptor Antagonists
6,043,259	March 28, 2000	Treatment of Cardiovascular and Related Pathologies
6,051,587	April 18, 2000	Treatment of Age Related Hypertension

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6,136,794	October 24, 2000	Platelet Aggregation Inhibition Using Low Molecular Weight Heparin in Combination with a GP IIb/IIIa Antagonist
6,339,085	January 15, 2002	Prodrugs of MC1
6,417,204	July 9, 2002	5-AZA Analogues
6,489,345	December 2, 2003	Treatment of Diabetes and Related Pathologies
6,538,112	March 25, 2003	Anticoagulant Test
6,548,519	April 15, 2003	5-AZA Analogues

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6,586,414	July 1, 2003	Methods of Treating Stroke
6,605,612	August 12, 2003	Mimics of MC1
6,667,315	December 23, 2003	Mimics of MC1
6,677,356	January 13, 2004	Combination
6,770,660	August 3, 2004	Method for Inhibiting Platelet Aggregation
6,780,997	August 24, 2004	Cardioprotective Phosphonates and Malonates
6,861,439	March 1, 2005	Treatment of Cerebrovascular Disease
6,867,215	March 15, 2005	Cardioprotective Phosphonates and Malonates
6,890,943	May 10, 2005	Pyridoxal Analogues and Methods of Treatment
6,897,228	May 24, 2005	Pyridoxine and Pyridoxal Analogues: Cardiovascular Therapeutics
7,105,673	September 12, 2006	Cardioprotective Phosphonates and Malonates
7,115,625	October 3, 2006	Treatment of Cardiovascular and Related Pathologies
7,115,626	October 3, 2006	Treatment of Cardiovascular and Related Pathologies
7,125,889	October 24, 2006	Treatment of Cardiovascular and Related Pathologies
7,132,430	November 7, 2006	Treatment of Cardiovascular and Related Pathologies
7,144,892	December 5, 2006	Treatment of Cardiovascular and Related Pathologies
7,148,233	December 12, 2006	Treatment of Cardiovascular and Related Pathologies
7,230,009	June 12, 2007	Pyridoxal Analogues and Methods of Treatment

Patents 5,504,090, 5,733,916 and 6,001,842 are sublicensed by the Corporation from ENDACEA, Inc. ENDACEA, Inc. has the right to sublicense the Sublicensed Patents to the Corporation in accordance with an agreement with the Trustees at the University of Pennsylvania. Pursuant to a Sublicense Agreement dated April 11, 2006, ENDACEA sublicensed the exclusive worldwide use of the patents to the Corporation. Pursuant to the Sublicense Agreement, the Corporation has agreed to pay ENDACEA, Inc. a royalty payment on Net Sales of Sublicensed Products sold worldwide. The Sublicense Agreement commenced on April 11, 2006.

Patents 6,043,259, 6,051,587, 6,339,085, 6,890,943 and 7,230,009 are jointly owned by the Corporation and the University of Manitoba. Pursuant to a Licence Agreement dated August 18, 1997, an Assignment Agreement dated September 26, 1997, an updated License Agreement dated August 30, 1999 and a newly revised version executed November 24, 2006, which supersedes all previous versions, (the Licence Agreement ) the University of Manitoba licensed the exclusive worldwide use of the patents and the MC-1 technology to the Corporation. Pursuant to the License Agreement, the Corporation has agreed to pay the University of Manitoba a royalty payment of up to 3% of net sales from any cardiovascular product derived from the MC-1 technology. The License Agreement was originally signed on August 30, 1999 and subsequently amended on November 24, 2006 and shall terminate if a patent or patents, domestic or foreign, are obtained prior to commercialization of a Licensed Product, the expiration date of the last to expire of any patents covered by the Patent Rights.

The MC-1 technology is derived from work done by employees of the Corporation and by two employees of the University of Manitoba, Dr. Naranjan Dhalla and Dr. Krishnamurti Dakshinamurti, Professor Emeritus, Department of Biochemistry.

Patents 5,292,756, 5,658,929, 5,733,919, 5,814,643, 5,880,136, 5,965,581, 5,972,967, 5,978,698, 6,040,317, 6,136,794, 6,538,112 and 6,770,660 were purchased by the Corporation from MGI GP, INC. (a Delaware corporation doing business as MGI PHARMA and its Affiliate, Artery, LLC). Pursuant to an Asset Purchase Agreement dated August 8, 2006, MGI GP, INC. sold the exclusive use of the patents to the Corporation in the specified territory (the United States of America including the Commonwealth of Puerto Rico; Guam; and the United States Virgin Islands). Pursuant to the Asset Purchase Agreement the

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Corporation agreed to pay MGI GP, INC. a one time fee for the procurement of the acquired assets. The Asset Purchase Agreement was executed August 8, 2006.

The Corporation entered into a second license with the University of Manitoba. This technology is unrelated to MC-1. The University of Manitoba has the right to license the technology to the Corporation in accordance with an Inter-institutional Agreement with The University and Ottawa Heart Institute Research Corporation. Pursuant to a license agreement dated December 8, 2006, the University of Manitoba licensed the exclusive worldwide use of the application to the Corporation. Pursuant to the License Agreement, the Corporation has agreed to pay on Net Sales of Licensed Products sold worldwide. The License Agreement commenced on December 8, 2006. No patents related to this technology have issued yet.

There are 43 pending United States patent applications, including 41 filed with the United States Patent Office as either regular or provisional applications, which are owned by the Corporation by virtue of their inventorship by employees of the Corporation and, subsequent to June 1, 2000, by CanAm Bioresearch Inc. The 2 remaining applications, 10/588,288 and 10/909,608 are from the University of Manitoba License Agreement of December 8, 2006 and the MGI Pharma Asset Purchase Agreement, respectively.

Much of the work, including some of the research methods, that is important to the success of the Corporation's business is germane to the industry and may not be patentable. For this reason all employees, contracted researchers and consultants are bound by non-disclosure agreements.

Given that the patent applications for these technologies involve complex legal, scientific and factual questions, there can be no assurance that patent applications relating to the technology used by the Corporation will result in patents being issued, or that, if issued, the patents will provide a competitive advantage or will afford protection against competitors with similar technology, or will not be challenged successfully or circumvented by competitors.

The Corporation has filed patents in accordance with the Patent Cooperation Treaty (the PCT). The PCT is a multilateral treaty that was concluded in Washington in 1970 and entered into force in 1978. It is administered by the International Bureau of the World Intellectual Property Organization (the WIPO), headquartered in Geneva, Switzerland. The PCT facilitates the obtaining of protection for inventions where such protection is sought in any or all of the PCT contracting states (total of 104 at July 1999). It provides for the filing of one patent application (the international application), with effect in several contracting states, instead of filing several separate national and/or regional patent applications. At the present time, an international application may include designation for regional patents in respect of contracting states party to any of the following regional patent treaties: The Protocol on Patents and Industrial Designs within the framework of the African Regional Industrial Property Organization, the Eurasian Patent Convention, the European Patent Convention, and the Agreement Establishing the African Intellectual Property Organization. The PCT does not eliminate the necessity of prosecuting the international application in the national phase of processing before the national or regional offices, but it does facilitate such prosecution in several important respects by virtue of the procedures carried out first on all international applications during the international phase of processing under the PCT. The formalities check, the international search and (optionally) the international preliminary examination carried out during the international phase, as well as the automatic deferral of national processing which is entailed, give the applicant more time and a better basis for deciding whether and in what countries to further pursue the application. Further information may be obtained from the official WIPO internet website (<http://www.wipo.int>).

On June 1, 2000 the Corporation entered into the Medicure International Licensing Agreement whereby it licensed the world-wide development and marketing rights for MC-1, except for Canada, to its wholly owned subsidiary, Medicure International Inc. As consideration for the grant of the license, Medicure International Inc. agreed to pay the Corporation a fee of \$1.00 upon the completion of specified milestones in the development process, together with a

variable royalty of 7% to 9% of net sales of MC-1 (if any sales are ever in fact made). The term of the Medicare International Licensing Agreement will expire on the date of expiration of the last to expire patent on MC-1, or in the absence of any such patent, on the 10th anniversary of the date of the first commercial sale of MC-1 in the country where it was last introduced (if it is ever so introduced). The Medicare International Licensing Agreement may be

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terminated under a number of circumstances and, in any event, by either party at any time by providing the other with at least 90 days prior written notice of its intention to terminate the Medicare International Licensing Agreement.

Medicare International Inc. subsequently entered into a development agreement with CanAm on June 1, 2000 and CDRI on July 2, 2004 to perform research and development of MC-1 and other compounds at cost, plus a reasonable mark-up not to exceed ten percent of any amount invoiced. The parties to the development agreements have agreed that the aggregate amount of all invoiced expenditures shall not exceed \$30,000,000 over the term of each agreement. The term of the development agreements is to expire on the completion of all research and development activities by CanAm and CDRI, and the written acknowledgment by CanAm, CDRI and Medicare International Inc. that no further research projects will be undertaken (see Item 6 - Directors, Senior Management and Employees - A. Directors and Senior Management)

The development agreements may be terminated under a number of circumstances and, in any event, by Medicare International Inc. at any time by providing CanAm or CDRI with at least 30 days prior written notice of its intention to terminate, or by CanAm or CDRI at any time by providing Medicare International Inc, with at least 90 days prior written notice of its intention to terminate the development agreement.

The agreements provide that all confidential information developed or made known during the course of the relationship with the Corporation is to be kept confidential except in specific circumstances.

#### **D. Trend Information**

The Corporation is not aware of any trends, uncertainties, demands, commitments or events which are reasonably likely to have a material effect upon the Corporation's net sales or revenues, income from continuing operations, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial condition.

#### **E. Off-balance Sheet Arrangements**

As part of the Corporation's ongoing business, it does not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities or SPE, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of May 31, 2007, the Corporation was not involved in any unconsolidated SPE transactions.

#### **F. Contractual Obligations**

The following tables set forth the Corporation's contractual obligations as of May 31, 2007:

<i>(in thousands of CDN\$)</i>	Contractual Obligations Payment Due By Period				
	Total	2008	2009-2010	2011-2012	Thereafter
Clinical Site Agreement	13,107	13,107	-	-	-
Commitments					
Clinical Research Organization Agreement	3,857	3,857	-	-	-

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Commitments					
Purchase Agreement Commitments	3,430	1,090	2,340	-	-
Service Agreement Commitments	805	805	-	-	-
Total	21,199	18,859	2,340	-	-

In conjunction with the acquisition of AGGRASTAT®, the Company entered into manufacturing and supply agreements to purchase a minimum quantity of AGGRASTAT® from third parties.

The Company entered into an agreement with a third party to provide contract sales and marketing services, which expires in 2008.

In addition to the contractual obligations disclosed above, the Company and its wholly-owned subsidiaries, have ongoing research and development agreements with third parties in the ordinary course of business. The agreements include the research and development of MC-1 and its related compounds.

The contracts with the clinical research organizations (CROs) are payable over the terms of the trials and timing of payments is largely dependent on various milestones being met, such as the number of patients recruited, number of monitoring visits conducted, the completion of certain data management activities, trial completion, and other trial-related activities. As at May 31, 2007, the Company is committed to fund up to a further \$3,857,000 related to clinical research agreements with CROs.

The Company also entered into agreements with the clinical sites participating in the trials. The site agreements require payments over the course of the study based on various activities being completed by the site, such as patient visits and various testing and measurement activities required per the study protocol. The Company is also liable for the payment of certain pass through costs. A significant portion of the amounts due to the sites for these activities is not payable until after the completion of these activities. As at May 31, 2007, the Company is committed to fund up to an estimated \$13,107,000 related to site agreements. The CRO and site agreements are cancellable upon termination notice.

In addition, the Company has committed to fund a further \$30,699,000 in research and development activities under two development agreements with contract research organizations. The timing of expenditures and payments is largely at the discretion of the Company and the agreements may be terminated at any time provided thirty (30) days notice is provided.

The Corporation periodically enters into research agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Corporation to compensate the other party for certain damages and costs incurred as a result of claims arising from research and development activities undertaken on behalf of the Corporation. In some cases, the potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Corporation has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification obligations.

The Company has granted royalties to third parties based on future commercial sales of MC-1, aggregating up to 3.9% on net sales. To date, no royalties are due and/or payable.

Royalties are payable to Merck & Co., Inc., based on net sales of AGGRASTAT® beginning in January 2007 and continuing until the expiration of the last to expire of the assigned patents. The calculation of royalties due is based on a sliding scale dependant on reaching certain net sales milestones and ranges between 5-20% of net sales as defined in the license agreement. Royalties due under the license agreement are included in cost of goods sold in the period in which the related sale is recognized.

Upon closing of the Elliott financing (see Item 5B. Liquidity and Capital Resources above), additional royalties will be owed on future sales of AGGRASTAT® and MC-1, if approved.

No dividends have been declared or paid on any shares of the Corporation since its incorporation. There can be no assurance that the Corporation will ever declare any dividends on any of its shares, or if declared, what the dividend amounts will be or whether such dividends, once declared, will continue for any future period.

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**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. Directors and Senior Management*****Directors and Senior Management***

The members of the board of directors and senior officers of the Corporation including a brief biography of each are as follows:

**Dr. Albert D. Friesen, Winnipeg, Manitoba, Canada - Director, President, Chairman and Chief Executive Officer**

The founder of Medicure Inc., Dr. Friesen holds a Ph.D. in protein chemistry from the University of Manitoba. Dr. Friesen played a key role in founding several health industry companies including Rh Pharmaceuticals (acquired by Cangene Inc.), ABI Biotechnology (acquired by Apotex Inc.), Viventia Biotech Inc., Genesys Pharma Inc. and KAM Scientific Inc. Dr. Friesen has experience in the establishment of pharmaceutical production facilities and has also managed and initiated the research and clinical development of several pharmaceutical candidates. Dr. Friesen is a founder of the Industrial Biotechnology Association of Canada (IBAC) and past Chairman of its board of directors and former member of the Industrial Advisory Committee to the Biotechnology Research Institute in Montreal. Dr. Friesen previously served as a senior executive of other publicly-traded companies, including a position as President of Viventia Biotech Inc. (formerly Novopharm Biotech Inc.) In addition to his role with the Corporation, Dr. Friesen is currently the President and Chairman of Genesys Venture Inc., a biotech incubator, based in Winnipeg. Dr. Friesen provides his services to the Corporation through A.D. Friesen Enterprises Ltd., his private consulting corporation. Dr. Friesen devotes substantially all of his time to the Corporation.

**Dr. Arnold Naimark, Winnipeg, Manitoba, Canada - Director**

Arnold Naimark, O.C., O.M., M.D., L.L.D., F.R.C.P.(C), F.R.S.C, FCAHS., has had a distinguished career in biomedical research, medicine and higher education. He is President Emeritus and Dean of Medicine Emeritus of the University of Manitoba, and is currently Director of the University's Centre for the Advancement of Medicine. He also serves as Chair of the Health Canada Science Advisory Board, Chair of Genome Prairie; as a director of CancerCare Manitoba and member of the Research Council of the Canadian Institute for Advanced Research and of the Alberta Cancer Board International Committee on Research. Dr. Naimark was the founding Chair of the Canadian Health Services Research Foundation and of the Canadian Biotechnology Advisory Committee and has served on many other committees and boards, in such positions as Director of the Canadian Imperial Bank of Commerce, Chair of the International Review Panel for the Medical Research Council of Canada and President of the Association of Universities and Colleges of Canada. Dr. Naimark has received several honorary degrees and awards, including the Order of Canada and the Order of Manitoba.

**Gerald P. McDole, Mississauga, Ontario, Canada, MBA Director**

Mr. McDole is currently a director of several Canadian healthcare companies. Mr. McDole is Past President of AstraZeneca Canada Inc. He was named President and CEO of AstraZeneca Canada Inc.'s pharmaceutical operations in 1999 and immediately led the merger of Astra Pharma and Zeneca Pharma Inc. Prior to this, Mr. McDole was president and CEO of Astra Pharma Inc., a position he assumed in 1985 after having served as Executive Vice-President. Mr. McDole is a member of the Canadian Healthcare Marketing Hall of Fame, and has been recognized by Canadian Healthcare Manager Magazine with the Who's Who in Healthcare Award in the pharmaceutical category. In recognition of Mr. McDole's outstanding contributions to the biotech and pharmaceutical industries, the University of Manitoba recently established The Gerry McDole Fellowship in Health Policy and

Economic Growth.

**Peter Quick, Mill Neck, New York, USA - Director**

Mr. Quick currently serves on the Board of Directors for Fund For The Poor, the Board of Governors of St. Francis Hospital on Long Island, and the National Selection Committee for the Jefferson Scholars

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Program of the University of Virginia. Mr. Quick is past President and CEO of Quick & Reilly, Inc. and a former President of the American Stock Exchange. Mr. Quick has also served on the Board of Governors of the Chicago Stock Exchange and as Chairman of the Midwest Securities Trust Company. Mr. Quick received a bachelor's degree in engineering from the University of Virginia and attended Stanford University's Graduate School of Petroleum Engineering. He was a lieutenant in the United States Navy, and served four years active duty.

**Kishore Kapoor, Winnipeg, Manitoba, Canada, CA Director**

Mr. Kapoor is the President of Wellington West Holdings Inc., a specialized financial services company. Mr. Kapoor is also presently a director of Manitoba Telecom Services Inc., a public company listed on the Toronto Stock Exchange. From November 2003 to June 2005, Mr. Kapoor was Executive Vice-President Corporate Development of Loring Ward International Ltd., which was formed to hold the U.S. operations of Assante Corporation. As one of the founders of Assante Corporation, Mr. Kapoor was its Executive Vice-President Corporate Development from March 1994 to November 2003. Prior to founding Assante Corporation, Mr. Kapoor was a tax partner with KPMG LLP. In his 14 years with KPMG LLP, he specialized in offering clients advice on tax, corporate finance, mergers and acquisitions, and development of corporate strategy in a wide range of industries, including those in the biotechnology sector.

**Moray W. Merchant, MBA - Vice-President, Business and Market Development**

Moray Merchant received his MBA in Pharmaceutical Marketing from Saint Joseph's University in Philadelphia and holds a Bachelor's Degree in Business Administration from the University of New Brunswick. Mr. Merchant has over 20 years of industry experience leading the strategic planning, sales and marketing of pharmaceutical products. For 18 years he held several positions with DuPont Pharma in Canada managing the sales and marketing of their cardiovascular products, directing business development activities and establishing and leading their generics business. Beginning in 2001, he held the positions of Vice President, Sales and Vice President of Marketing for aaiPharma Inc., a U.S. based specialty pharmaceutical company. In these roles he was responsible for building the sales and marketing organizations and leading the promotion of their acquired portfolio of pharmaceutical products. Mr. Merchant holds the responsibility for identifying partnering opportunities, leading the strategic planning process and overseeing the commercialization of the Corporation's cardiovascular products.

**Dawson Reimer, MAES - Vice-President, Operations**

Dawson Reimer proceeded from a Master's Degree in Economic Development, University of Waterloo to be employed as a full-time consultant to the Federal Department of Western Diversification. In this capacity, he conducted entrepreneurship training and developed a business start-up training program. Beginning in 1996, he served as Business Development/Investor Relations with Genesys Pharma Inc. He was also project coordinator for the establishment of the Corporation's new research and pharmaceutical production facility. In 1997, he began conducting business activities for Genesys Venture Inc., a biotech business incubator, where he has assisted numerous biotechnology ventures in developing business plans, obtaining financing, and developing intellectual property protection. In this capacity, Mr. Reimer became actively involved in the Corporation at its inception and has been directly employed by the Corporation since 2001. Mr. Reimer is a son-in-law of Dr. Albert D. Friesen, Director, President, Chairman and Chief Executive Officer.

**Derek G. Reimer, CA - Chief Financial Officer and Secretary**

Derek Reimer came to the Corporation from Deloitte & Touche LLP where he most recently served as a Senior Manager in the Assurance and Advisory Services group. In this role, Mr. Reimer dealt mainly with major corporate clients, including several TSX 100 companies, providing advice regarding complex accounting, regulatory, and

compliance issues. His previous experience includes several years providing international accounting services to clients exclusively in the financial services industry. Mr. Reimer is a Chartered Accountant who also holds a Bachelor of Commerce (Hons.) degree in accounting from the University of Manitoba. Mr. Reimer is responsible for managing financial systems, programs and processes to ensure the successful accomplishment of the Corporation's business objectives.

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**Mr. Jan-Ake Westin - Vice-President, Clinical Development**

Mr. Westin has worked as a managing director at two of Canada's leading CROs: i3 Research and Innovus. In this capacity he has overseen the management of numerous large cardiovascular clinical trials. Mr. Westin spent over 20 years with Astra Pharma Inc., holding such positions as International Clinical Research Manager and Senior Clinical Research Scientist. Mr. Westin served in senior leadership positions with Pharmacia & Upjohn Inc. and Pfizer/Pharmacia Corporation, where he served as Director of Clinical Operations and as Director of Clinical Outsourcing, respectively. Mr. Westin received his M.Sc. (Social Pharmacy) from the University of Uppsala in Sweden.

**Dr. Charles Gluchowski - Vice-President, Research & Development**

Dr. Gluchowski received his PhD. in organic chemistry from Texas A&M University. Dr. Gluchowski has been active in the life sciences industry for over 20 years, including extensive experience in both executive and senior scientific positions. His experience includes serving as President and Chief Scientific Officer at Ceretek, a drug discovery company focused on developing novel therapeutics targeting Lipid G-Protein Coupled Receptors (L-GPCRs). He also served as Director of Chemistry at Synaptic Pharmaceutical Corp. where he founded the Chemistry Department and led several drug discovery and development project teams including a Benign Prostatic Hyperplasia project in collaboration with Merck & Co., Inc. He began his professional career at Allergan, Inc. where he initiated medicinal chemistry programs that led to the discovery and development of Alphagan® and Lumigan® for the treatment of glaucoma. The combined total sales for Alphagan® and Lumigan® in 2005 exceeded USD\$400 million. He is the sole or co-inventor on over 75 patents issued in the U.S, and has published over 45 peer-reviewed articles and book chapters. Dr. Gluchowski provides his services to the Corporation's research and development activities through a consulting contract with CanAm Bioresearch Inc.

***Business Management***

**Dr. Albert D. Friesen - Chairman, President, Chief Executive Officer and Director:** Dr. Friesen directs the overall business management of the Corporation (see Directors and Senior Management under this item).

**Moray W. Merchant, MBA - Vice-President, Business and Market Development:** Mr. Merchant holds the responsibility for identifying partnering opportunities, leading the strategic planning process and overseeing the commercialization of the Corporation's cardiovascular products. (see Directors and Senior Management under this item).

**Dawson Reimer - Vice-President, Operations:** Mr. Reimer holds the responsibility of managing the internal operations and functional areas which include project management and strategic planning. (See Directors and Senior Management under this item)

**Derek G. Reimer, CA - Chief Financial Officer and Secretary:** Mr. Reimer participates in the Corporation's financial management and accounting practices (see Directors and Senior Management under this item).

**Heather Hlady - Director, Sales and Marketing**

Heather Hlady received her B. Sc. in Chemistry from the University of Alberta. Ms. Hlady has over 14 years of pharmaceutical management, sales and marketing experience. Ms. Hlady has spent her career with Jouveinal, Pfizer and most recently, Biovail. Her experience with Jouveinal brought a portfolio of eight different products, including the launch of two products to the market. In 1997, she moved to Pfizer Canada where she was a District Manager for the cardiovascular portfolio. In her role as District Manager, she managed the sales and performance of the cardiovascular

product budgets, marketing and promotion, and was involved in the launch of two products to the market. Ms. Hlady holds the responsibility for the launch of the sales and marketing teams for Aggrastat® in the US, the branding and marketing of Medicure as a company, and for creating a dynamic and strategic plan for the extension of the product line.

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***Scientific Management*****Dr. Naranjan S. Dhalla - Chief Scientific Officer**

Dr. Dhalla participates in the scientific management of the Corporation under the title Chief Scientific Officer. The principal inventor of MC-1, Dr. Dhalla recently retired as Distinguished Professor and Director, Institute of Cardiovascular Sciences, St. Boniface General Hospital Research Centre, Faculty of Medicine, University of Manitoba. Dr. Dhalla is an internationally recognized cardiovascular researcher who has received 59 honours and awards including the Research Achievement Award of the Canadian Cardiovascular Society, The Upjohn Award of the Pharmacological Society of Canada, Honorary Professorship at several universities, the Order of the Buffalo Hunt from the Province of Manitoba, and the Order of Canada. Professionally, Dr. Dhalla has been actively promoting the scientific basis of cardiology for over 25 years.

Dr. Dhalla has served in senior positions such as Secretary General (17 years) and President (3 years) of the International Society for Heart Research, Editor-in-Chief (11 years) of the international journal *Molecular and Cellular Biochemistry* and is currently serving on the editorial boards of 11 other international journals. Since 1996, Dr. Dhalla has served as Executive Director of the International Academy of Cardiovascular Sciences. Dr. Dhalla has published 500 papers and 350 abstracts as well as edited or authored 31 books in the area of heart research. Dr. Dhalla has provided his services to the Corporation's research and development activities through a consulting contract with CanAm Bioresearch Inc.

**Mr. Jan-Ake Westin - Vice-President, Clinical Development**

Mr. Westin is responsible for the design and management of clinical studies for Medicure's lead compound, MC-1, and for the clinical aspects of other business development and research projects.

**Dr. Charles Gluchowski - Vice-President, Research & Development**

Dr. Gluchowski is responsible for the preclinical development for Medicure's lead preclinical compounds, including, MC-45302 and MC-5422, and for other research projects. Dr. Gluchowski provides his services to the Corporation's research and development activities through a consulting contract with CanAm Bioresearch Inc. (see *Directors and Senior Management* under this item).

**Dr. Ahmad Khalil - Medical Director**

Dr. Khalil received his MD from the Medical Academy IP in Plovdiv, Bulgaria in 1986, and his M.Sc degree (1993) and PhD (1997) from The University of Montreal. He has excellent basic research experience in the areas of *in vivo* antithrombotic treatment and ischemia reperfusion, as well as therapeutic approaches to coronary artery bypass graft surgery, much of which was done during his tenure as researcher and lecturer at the renowned Montreal Heart Institute. In addition, Dr. Khalil has experience as a practicing surgeon in Europe and has presented at numerous cardiovascular conventions and published extensively.

**Dr. Deborah Douglas - Director of Physiology**

Dr. Douglas received her Ph.D. in Animal Science from McGill University, focusing on molecular biology related research. Her post-doctoral experience involved cell biology research at the Institute of Cell Biology, University of Manitoba, and the Jack Bell Research Centre, Vancouver General Hospital, University of British Columbia. Dr. Douglas developed *in vitro* and *in vivo* models to screen for human diseases as Chief of Compound Screening for *Alviva* Biopharmaceutical Inc. Dr. Douglas provides her services to Medicure through an employment agreement with

CanAm Bioresearch Inc.

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**Dr. Paul Armstrong - Clinical Consultant**

Dr. Armstrong, Chair of the Advisory Board, is Professor in the Department of Medicine, University of Alberta in Edmonton. Dr. Armstrong is an internationally recognized cardiologist and clinical investigator with extensive expertise in the design and conduct of clinical trials focused on acute ischemic syndromes and congestive heart failure. Dr. Armstrong has published widely and served as a senior advisor to major organizations and industry. Since June 1, 2000, Dr. Armstrong provides services to the Corporation's research and development activities through a consulting contract with CDRI Inc.

***Scientific Advisory Board***

The Corporation has established a Scientific Advisory Board to ensure continued and proper review of research activities and work plans. The members of the Scientific Advisory Board and a brief biography of each are as follows:

**Dr. Paul Armstrong - Chairperson**

Dr. Armstrong, Chair of the Scientific Advisory Board, is Professor in the Department of Medicine, University of Alberta in Edmonton. Dr. Armstrong is an internationally recognized cardiologist and clinical investigator with extensive expertise in the design and conduct of clinical trials focused on acute ischemic syndromes and congestive heart failure. Dr. Armstrong has published widely and served as a senior advisor to major organizations and industry.

**Dr. Stephen Hanessian**

Dr. Hanessian is Professor, Department of Chemistry, University of Montreal. Dr. Hanessian is one of North America's most renowned medicinal chemists with considerable experience in industry collaboration for the discovery of new pharmaceuticals.

**Dr. Morris Karmazyn**

Dr. Karmazyn is a Professor in the Department of Pharmacology and Toxicology at the University of Western Ontario in London, Ontario. Dr. Karmazyn is internationally recognized and has received numerous distinctions for his research in the field of myocardial ischemia and ischemic reperfusion injury.

**Dr. John McNeill**

Dr. McNeill is Professor and Dean Emeritus, Division of Pharmacology and Toxicology, Faculty of Pharmaceutical Sciences at the University of British Columbia in Vancouver. The recipient of numerous awards and distinctions, Dr. McNeill's research is centered on the biochemical mechanism action of drugs on the heart.

**Dr. Eldon Smith**

Dr. Smith is a Professor at the University of Calgary Medical School in Alberta, where his past positions include Dean of the Faculty of Medicine, Head of the Department of Medicine and Head of the Division of Cardiology. A distinguished clinician and research scientist, Dr. Smith has considerable industry experience having served on the boards of several well-recognized companies.

**Dr. Pierre Theroux**

Dr. Theroux is Professor of Medicine at the University of Montreal and Chief of the Coronary Care Unit at the Montreal Heart Institute. Dr. Theroux's innovative work is widely recognized and he has contributed extensively to the development of new treatments for acute ischemic heart disease.

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**Dr. Jeffrey Weitz**

Dr. Weitz is Professor of Medicine and Haematology at McMaster University in Hamilton where he has contributed extensively to understanding the role of thrombosis and its treatment in cardiovascular disease. Dr. Weitz also brings a wealth of expertise in academic-industrial collaboration and development of new products.

**Dr. Trevor Hassell**

Dr. Hassell is Adjunct Professor of Medicine at the University of the West Indies, Barbados, and Consultant Physician and Cardiologist at the Queen Elizabeth Hospital, also in Barbados. He is President-Elect of the Inter-American Heart Foundation, former President of the Caribbean Cardiac Society and founder, President and member of the Board of Directors of the Heart Foundation of Barbados.

**Dr. A. Michael Lincoff**

Dr. Lincoff is an interventional cardiologist in the Cleveland Clinic Department of Cardiovascular Medicine and a staff cardiologist in the Joseph J. Jacobs Center for Thrombosis and Vascular Biology, Department of Molecular Cardiology at the Cleveland Clinic Research Institute. Dr. Lincoff's specialty interests focus on high-risk and complex coronary angioplasty, preventing restenosis, treating acute coronary syndromes and acute myocardial infarction, and developing antithrombotic therapy during coronary intervention.

**B. Compensation**

No compensation of any kind was paid to the directors and executive officers of the Corporation during the year ended May 31, 2007, except for stock-based compensation described in Item 6(E) below and as follows:

On October 1, 2001, a compensation agreement was entered into between the Corporation and A.D. Friesen Enterprises Ltd., a corporation owned by Dr. Friesen and subsequently amended on October 1, 2003, October 1, 2005, and October 1, 2006. For the year ended May 31, 2007, the Corporation paid A.D. Friesen Enterprises Ltd., \$289,333 in consulting compensation, including bonuses. Dr. Friesen is eligible for an annual bonus, if certain objectives of the Corporation are met, as determined by the Board of Directors.

Moray Merchant serves the Corporation as Vice President, Market and Business Development and received a salary of \$176,250 payable in equal semi-monthly instalments in fiscal 2007.

Dawson Reimer serves the Corporation as Vice President, Operations and received a salary of \$98,333 payable in equal semi-monthly instalments in fiscal 2007.

Derek G. Reimer serves the Corporation as Chief Financial Officer and Secretary and received a salary of \$128,333 payable in equal semi-monthly installments in fiscal 2007.

During the year ended May 31, 2007, the Corporation paid directors a total of Nil (Year ended May 31, 2006: Nil; Year ended May 31, 2005: Nil; Year ended May 31, 2004: Nil; Year ended May 31, 2003: Nil) for consulting fees.

Additionally, the Corporation provides its directors \$1,500 for each quarterly board meeting they personally attend (\$750 via telephone), and \$750 for each quarterly executive compensation, nominating and corporate governance committee meeting or audit and finance committee meeting they attend. The Corporation does not provide any cash compensation for its directors who are also officers of the Corporation for their services as directors.

No pension, retirement fund and other similar benefits have been set aside for the officers and directors of the Corporation.

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### **C. Board Practices**

The Board of Directors presently consists of five directors who were elected at the Corporation's annual general meeting of the shareholders held on October 11, 2006. Each director holds office until the next annual general meeting of the Corporation or until his successor is elected or appointed, unless his office is earlier vacated in accordance with the Articles of the Corporation, or with the provisions of the *Canada Business Corporations Act*. Dr. Albert D. Friesen has served as a director of the Corporation since September 1997. Dr. Arnold Naimark has served as a director of the Corporation since March 2000, Dr. William A. Cochrane had served as a director of the Corporation since October 2000 and resigned as of June 28, 2006. Gerald McDole has served as a director of the Corporation since January 2004. Peter Quick has served as a director of the Corporation since November 2005. Kishore Kapoor was appointed as a director of the Corporation on June 28, 2006.

#### ***Audit and Finance Committee***

Pursuant to Section 171 of the *Canada Business Corporations Act* (the Act), the Corporation is required to have an Audit Committee. As at the date hereof, the Audit and Finance Committee is comprised of four independent directors: Kishore Kapoor (Chair), Dr. Arnold Naimark, Gerald McDole and Peter Quick. The relevant experience of each member is described above. (See Item 6. Directors, Senior Management and Employees) Section 171(1) of the Act requires the directors of a reporting corporation to elect from among their number a committee composed of not fewer than three directors, of whom a majority must not be officers or employees of the corporation or an affiliate of the corporation. Section 171(3) of the Act provides that, before financial statements are approved by the directors, they must be submitted to the audit committee for review. Section 171(4) of the Act provides that the auditor must be given notice of, and has the right to appear before and to be heard at, every meeting of the audit committee, and must appear before the audit committee when requested to do so by the committee. Finally, section 171(5) of the Act provides that on the request of the auditor, the audit committee must convene a meeting of the audit committee to consider any matters the auditor believes should be brought to the attention of the directors or members.

Under the Sarbanes-Oxley Act of 2002, the independent auditor of a public company is prohibited from performing certain non-audit services. The Audit and Finance Committee has adopted procedures and policies for the pre-approval of non-audit services, as described in the audit committee charter.

The charter of the Audit and Finance Committee is reproduced below and can be found on the Corporation's website at [www.medicure.com](http://www.medicure.com).

### **AUDIT AND FINANCE COMMITTEE CHARTER**

#### **GENERAL FUNCTIONS, AUTHORITY, AND ROLE**

The purpose of the Audit and Finance Committee is to oversee the accounting and financial reporting processes of the Corporation and the audits of its financial statements, and thereby assist the Board in monitoring (1) the integrity of the financial statements of the Corporation, (2) compliance by the Corporation with ethical policies and legal and regulatory requirements related to financial reporting, (3) the appointment, compensation, qualifications, independence and performance of the Corporation's internal and external auditors, (4) the performance of the Corporation's independent auditors, and (5) performance of the Corporation's internal controls and financial reporting process.

The Audit and Finance Committee has the power to conduct or authorize investigations into any matters within its scope of responsibilities, with full access to all books, records, facilities and personnel of the Corporation, its auditors and its legal advisors. In connection with such investigations or otherwise in the course of fulfilling its responsibilities

under this charter, the Audit and Finance Committee has the authority to independently retain special legal, accounting, or other consultants to advise it, and may request any officer or employee of the Corporation, its independent legal counsel or independent auditor to attend a meeting of the Audit and Finance Committee or to meet with any members of, or consultants to, the Audit and Finance Committee. The Audit and Finance Committee has the power to create specific sub-committees with all of the power to conduct or authorize investigations into any matters within the

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scope of the mandate of the sub-committee, with full access to all books, records, facilities and personnel of the Corporation, its auditors and its legal advisors.

The Corporation's independent auditor is ultimately accountable to the Board of Directors and to the Audit and Finance Committee, who, as representatives of the Corporation's shareholders, have the authority and responsibility to evaluate the independent auditor, appoint and replace the independent auditor, and to determine appropriate compensation for the independent auditor. In the course of fulfilling its specific responsibilities hereunder, the Audit and Finance Committee must maintain free and open communication between the Corporation's independent auditors, Board of Directors and Corporation management. The responsibilities of a member of the Audit and Finance Committee are in addition to such member's duties as a member of the Board of Directors.

While the Audit and Finance Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Audit and Finance Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete, accurate, and in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit and Finance Committee to conduct investigations, to resolve disagreements, if any, between management and the independent auditor or to assure compliance with laws and regulations and the Corporation's Code of Ethics. Any responsibilities that the Audit and Finance Committee has the power to act upon, may be recommended to the Board to act upon.

## **MEMBERSHIP**

The membership of the Audit and Finance Committee will be as follows:

The Committee shall consist of a minimum of three members of the Board of Directors, appointed from time to time, each of whom is affirmatively confirmed as independent by the Board of Directors, with such affirmation disclosed in the Corporation's annual Information Circular.

The Board will elect, by a majority vote, one member as chairperson.

The members of the Audit and Finance Committee will meet all independence and financial literacy requirements of The American Stock Exchange, The Toronto Stock Exchange, Rule 10A-3 of the Securities Exchange Act of 1934, as amended, Multilateral Instrument 52-110 and the requirements of such other securities exchange or quotations system or regulatory agency as may from time to time apply to the Corporation.

A member of the Audit and Finance Committee may not, other than in his or her capacity as a member of the Audit and Finance Committee, the Board of Directors, or any other Board committee, accept any consulting, advisory, or other compensatory fee from the Corporation, and may not be an affiliated person of the Corporation or any subsidiary thereof.

## **RESPONSIBILITIES**

The responsibilities of the Audit and Finance Committee shall be as follows:

### **Frequency of Meetings**

Meet quarterly or more often as may be deemed necessary or appropriate in its judgment, either in person or telephonically.

The Audit and Finance Committee will meet with the independent auditor at least quarterly, either in person or telephonically.

**Reporting Responsibilities**

Provide to the Board of Directors proper Committee minutes.

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Report Committee actions to the Board of Directors with such recommendations as the Committee may deem appropriate.

### **Charter Evaluation**

Annually review and reassess the adequacy of this Charter and recommend any proposed changes to the Board of Directors for approval.

### **Whistleblower Mechanism**

Adopt and review annually a procedure through which employees and others can anonymously inform the Audit and Finance Committee regarding any concerns about the Corporation's accounting, internal accounting controls or auditing matters. The procedure shall include responding to and the retention of, any such complaints.

### **Legal Responsibilities**

Perform such functions as may be assigned by law, by the Corporation's certificate of incorporation, memorandum, articles or similar documents, or by the Board of Directors.

## **INDEPENDENT AUDITOR**

### **Nominations**

Nominate annually the independent auditor to be proposed for shareholder approval.

### **Compensation and Evaluation**

Approve the compensation of the independent auditor, evaluate the performance of the independent auditor and, if so determined by the Committee, replace the independent auditor.

### **Approval in Advance of Related Party Transactions**

Pre-approval of all related party transactions, which are transactions or loans between the Corporation and a related party involving goods, services, or tangible or intangible assets that are (1) material to the Corporation or the related party, or (2) unusual in their nature or conditions. A related party includes an affiliate, major shareholder, officer, other key management personnel or director of the Corporation, a company controlled by any of those parties or a family member of any of those parties.

### **Engagement Procedures for Audit and Non-audit Services**

Approve in advance all audit services to be provided by the independent auditor. Establish policies and procedures that establish a requirement for approval in advance of the engagement of the independent auditor to provide permitted non-audit services and to prohibit the engagement of the independent auditor for any activities or services not permitted by any of the Canadian provincial securities commissions, the SEC or any securities exchange on which the Corporation's shares are traded including any of the following ten types of non-audit services:

Bookkeeping or other services related to accounting records or financial statements of the Corporation; Financial information systems design and implementation consulting services; Appraisal or valuation services, fairness opinions, or contributions-in-kind reports; Actuarial services; Internal audit outsourcing services; Any management or

human resources function;

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Broker, dealer, investment advisor, or investment banking services; Legal services; Expert services related to the auditing service; and Any other service the Board of Directors determines is not permitted.

### **Hiring Practices**

Ensure that no individual who is, or in the past 3 years has been, affiliated with or employed by a present or former auditor of the Corporation or an affiliate, is hired by the Corporation as a senior officer until at least 3 years after the end of either the affiliation or the auditing relationship.

### **Independence Test**

Take reasonable steps to confirm the independence of the independent auditor, which shall annually include:

Ensuring receipt from the independent auditor of a formal written statement delineating all relationships between the independent auditor and the Corporation, consistent with the Independence Standards Board Standard No. 1 and related Canadian regulatory body standards;

Considering and discussing with the independent auditor any relationships or services provided to the Corporation, including non-audit services, that may impact the objectivity and independence of the independent auditor; and

As necessary, taking, or recommending that the Board of Directors take, appropriate action to oversee the independence of the independent auditor and evaluate whether it is appropriate to rotate the independent auditor on a regular basis.

### **Audit and Finance Committee Meetings**

Notify the independent auditor of every Audit and Finance Committee meeting and permit the independent auditor to appear and speak at those meetings.

At the request of the independent auditor, convene a meeting of the Audit and Finance Committee to consider matters the auditor believes should be brought to the attention of the directors or shareholders.

Keep minutes of its meetings and report to the Board for approval of any actions taken or recommendations made.

### **Restrictions**

Confirm with management and the independent auditor that no restrictions are placed on the scope of the auditors' review and examination of the Corporation's accounts.

## **OTHER PROFESSIONAL CONSULTING SERVICES**

### **Engagement Review**

As necessary, consider with management the rationale and selection criteria for engaging professional consulting services firms.

Ultimate authority and responsibility to select, evaluate and approve professional consulting services engagements.

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## **AUDIT AND REVIEW PROCESS AND RESULTS**

### **Scope**

Consider, in consultation with the independent auditor, the audit scope, staffing and planning of the independent auditor.

### **Review Process and Results**

Consider and review with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, as the same may be modified or supplemented from time to time.

Review and discuss with management and the independent auditor at the completion of annual and quarterly examinations:

The Corporation's audited and unaudited financial statements and related notes; The Corporation's MD&A and news releases related to financial results; The independent auditor's audit of the financial statements and its report thereon; Any significant changes required in the independent auditor's audit plan; The appropriateness of the presentation of any non-GAAP related financial information;

Any serious difficulties or disputes with management encountered during the course of the audit; and

Other matters related to the conduct of the audit, which are to be communicated to the Audit and Finance Committee under generally accepted auditing standards.

Review the management letter delivered by the independent auditor in connection with the audit.

Following such review and discussion, if so determined by the Committee, recommend to the Board that the annual financial statements be included in the Corporation's annual report.

Review, discuss with management and approve annual and interim quarterly financial statements prior to public disclosure. The chairperson of the Audit and Finance Committee may represent the entire Audit and Finance Committee for purposes of this review.

Review and discuss with management and the independent auditor the adequacy of the Corporation's internal accounting and financial controls that management and the Board of Directors have established and the effectiveness of those systems, and inquire of management and the independent auditor about significant financial risks or exposures and the steps management has taken to minimize such risks to the Corporation.

Meet separately with the independent auditor and management, as necessary or appropriate, to discuss any matters that the Audit and Finance Committee or any of these groups believe should be discussed privately with the Audit and Finance Committee.

Review and discuss with management and the independent auditor the accounting policies which may be viewed as critical, including all alternative treatments for financial information within generally accepted accounting principles that have been discussed with management, and review and discuss any significant changes in the accounting policies of the Corporation and industry accounting and regulatory financial reporting proposals that may have a significant impact on the Corporation's financial reports.

Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures, if any, on the Corporation's financial statements.

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Review with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Corporation's financial statements or accounting policies.

Review with the Corporation's General Counsel legal matters that may have a material impact on the financial statements, the Corporation's financial compliance policies and any material reports or inquiries received from regulators or governmental agencies related to financial matters.

### **SECURITIES REGULATORY FILINGS**

Review filings with the Canadian provincial securities commissions and the SEC and other published documents containing the Corporation's financial statements.

Review, with management and the independent auditor, prior to filing with regulatory bodies, the interim quarterly financial reports (including related notes and MD&A) at the completion of any review engagement or other examination. The chairperson of the Audit and Finance Committee may represent the entire Audit and Finance Committee for purposes of this review.

### **RISK ASSESSMENT**

Meet periodically with management to review the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures.

Assess risk areas and policies to manage risk including, without limitation, environmental risk, insurance coverage and other areas as determined by the Board of Directors from time to time.

Review and discuss with management, and approve changes to, the Corporation's Corporate Treasury Policy.

### **ADOPTION OF AUDIT AND FINANCE COMMITTEE CHARTER**

This charter was originally adopted by the Board of Directors on August 23, 2004 and is reviewed and amended as necessary on an annual basis.

#### ***Executive Compensation, Nominating and Corporate Governance Committee***

The Executive Compensation, Nominating and Corporate Governance Committee is responsible for determining the compensation of executive officers of the Corporation. The current members of the Committee are Dr. Arnold Naimark (Chair), Gerald McDole, Peter Quick, and Kishore Kapoor, none of whom is a current or former executive officer of the Corporation. The Committee meets at least once a year.

The Committee has developed a policy to govern the Corporation's approach to corporate governance issues and provides a forum for concerns of individual directors about matters not easily or readily discussed in a full board meeting, e.g., the performance of management. The Committee ensures there is a clear definition and separation of the responsibilities of the Board, the Committees of the Board, the Chief Executive Officer and other management employees. It also ensures there is a process in place for the orientation and education of new directors and for continuing education of the Board. The Committee also assesses the effectiveness of the Board and its committees on an ongoing ad hoc basis. It also reviews at least annually the Corporation's responsiveness to environmental impact, health and safety and other regulatory standards.

The Committee reviews the objectives, performance and compensation of the Chief Executive Officer at least annually and makes recommendations to the Board for change. The Committee makes recommendations based upon the Chief Executive Officer's suggestions regarding the salaries and incentive compensation for senior officers of the Corporation. The Committee also reviews significant changes to compensation, benefits and human resources policies and compliance with current human resource management practices, such as pay equity, performance review and staff development. The

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Committee is responsible for reviewing and recommending changes to the compensation of directors as necessary.

The charter of the Executive Compensation, Nominating and Corporate Governance Committee can be found on the Corporation's website at [www.medicure.com](http://www.medicure.com).

#### D. Employees

In addition to the individuals disclosed in Section A. Directors and Senior Management of this item, the Corporation has 36 employees, of which 26 employees are dedicated to the Corporation's research and development activities. In addition, CanAm and CDRI have a combined staff of 23 research scientists, technicians and staff dedicated solely to the Corporation's research and development activities.

#### E. Share Ownership

With respect to the persons referred to above in Section B, Compensation, the following table discloses the number of shares (each share possessing identical voting rights), stock options held and percent of the shares outstanding held by those persons at May 31, 2007.

<i>Title of Class</i>	<i>Identity of Person or Group</i>	<i>Amount Owned</i>	<i>Percentage of Class</i>
Common shares	Dr. Albert D. Friesen <sup>(1)</sup>	7,512,099 <sup>(1)</sup>	6.46%
Common shares	Dr. Arnold Naimark	Nil	Nil
Common shares	Gerald P. McDole	10,000	0.01%
Common shares	Peter Quick	Nil	Nil
Common shares	Kishore Kapoor	Nil	Nil
Common shares	Derek G. Reimer	119,500	0.10%
Common shares	Moray Merchant	Nil	Nil
Common shares	Dawson Reimer	199,735	0.17%
Common shares	Jan-Ake Westin	9,000	0.01%
Common shares	Dr. Charles Gluchowski	Nil	Nil

- 1) Dr. Albert Friesen holds 427,900 shares personally or in an RRSP, a Canadian individual retirement plan. The rest of the shares are held by ADF Family Holding Corp., a private company wholly-owned by Dr. Friesen, his wife Mrs. Leona M. Friesen, and CentreStone Ventures Limited Partnership Fund (the Fund). Dr. Friesen is the CEO of the Fund.

#### *Incentive Stock Options*

The following table discloses the stock options beneficially held by the aforementioned persons, as of May 31, 2007. The stock options are for shares of Common Stock of the Corporation.

<b>Name of Person</b>	<b>Number of Shares Subject to Issuance</b>	<b>Exercise Price per Share</b>	<b>Expiry Date</b>
Dr. Albert D. Friesen	100,000	\$1.63	January 5, 2009
	150,000	\$1.65	December 6, 2015
	150,000	\$1.63	October 14, 2016



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Dr. Arnold Naimark	100,000	\$1.10	December 15, 2007
	50,000	\$1.10	August 12, 2008
	35,000	\$1.65	December 6, 2015
Gerald P. McDole	100,000	\$1.63	January 16, 2009
	75,000	\$1.65	December 6, 2015
Peter Quick	100,000	\$1.65	December 6, 2015
	50,000	\$1.54	January 16, 2017
Kishore Kapoor	100,000	\$1.83	August 18, 2016
Derek G. Reimer	30,000	\$1.63	January 5, 2009

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	45,000	\$1.65	December 6, 2015
	190,000	\$1.63	October 14, 2016
Moray Merchant	100,000	\$1.65	September 22, 2008
	100,000	\$1.12	August 23, 2009
	25,000	\$1.65	December 6, 2015
	75,000	\$1.63	October 14, 2016
Dawson Reimer	20,000	\$1.10	August 12, 2008
	30,000	\$1.63	January 5, 2009
	65,000	\$1.65	December 6, 2015
	100,000	\$1.63	October 14, 2016
Jan-Ake Westin	30,000	\$1.68	October 11, 2016
Dr. Charles Gluchowski	150,000	\$1.72	August 10, 2016

The Corporation has established an Incentive Stock Option Plan (the Plan) for its directors, key officers, employees and consultants. Options granted pursuant to the Plan will not exceed a term of ten years and are granted at an option price and on other terms which the directors determine is necessary to achieve the goal of the Plan and in accordance with regulatory requirements, including those of the TSX. Each option entitles the holder thereof to purchase one (1) Common Share of the Corporation on the terms set forth in the Plan and in such purchaser's specific stock option agreement. The option price may be at a discount to market price, which discount will not, in any event, exceed that permitted by any stock exchange on which the Corporation's Common Shares are listed for trading.

The number of Common Shares allocated to the Plan, the exercise period for the options (not to exceed five years), and the vesting provisions for the options will be determined by the board of directors of the Corporation from time to time. The aggregate number of shares reserved for issuance under the Plan, together with any other employee stock option plans, options for services and employee stock purchase plans, will not exceed 7,200,000 of the issued and outstanding Common Shares. In addition, the aggregate number of shares reserved for issuance to any one person shall not exceed five percent (5%) of the issued and outstanding Common Shares.

The Common Shares issued pursuant to the exercise of options, when fully paid for by a participant, are not included in the calculation of Common Shares allocated to or within the Plan. Should a participant cease to be eligible due to the loss of corporate office (being that of an officer or director) or employment, the option shall cease for varying periods not exceeding 90 days. Loss of eligibility for consultants is regulated by specific rules imposed by the directors when the option is granted to the appropriate consultant. The Plan also provides that estates of deceased participants can exercise their options for a period not exceeding one year following death.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. Major Shareholders**

As of May 31, 2007, the following table sets forth the beneficial ownership of the Corporation's common shares by each person known by the Corporation to own beneficially more than 5% of the issued and outstanding common shares of the Corporation. Information as to shares beneficially owned, directly or indirectly, by each nominee or over which each nominee exercises control or direction, not being within the knowledge of the Corporation, has been furnished by the respective nominees individually. CDS & Company, Toronto, Ontario is a clearing house that owns 74,557,872 (64.1%) of common shares of the Corporation on behalf of beneficial owners. The Corporation does not know the majority of the ultimate beneficial owners of these common shares.

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<i>Title of Class</i>	<i>Identity of Person or Group</i>	<i>Amount Owned</i>	<i>Percentage of Class</i>
Common shares	Dr. Albert D. Friesen <sup>(2)</sup> Winnipeg, Manitoba	7,512,099 <sup>(1)</sup>	6.46%

Notes:

(1) Amount of shares as of May 31, 2007.

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(2) Dr. Albert Friesen holds 427,900 shares personally or in an RRSP. The rest of the shares are held by ADF Family Holding Corp., a private company wholly-owned by Dr. Friesen, his wife Mrs. Leona M. Friesen, and CentreStone Ventures Limited Partnership Fund (the Fund). Dr. Friesen is the CEO of the Fund. As of July 11, 2007, there were 7,325 shareholders of record worldwide. As of this date there were 1,444 shareholders of record in the United States holding a total of 36,853,067 common shares of the Corporation.

To the best of the Corporation's knowledge, it is not owned or controlled, directly or indirectly, by another company, by any foreign government or by any other natural or legal person severally or jointly.

As of May 31, 2007, the total number of issued and outstanding common shares of the Corporation beneficially owned by the directors and executive officers of the Corporation as a group was 7,850,334 (or 6.75% of common shares).

To the best of the Corporation's knowledge, there are no arrangements, the operation of which at a subsequent date will result in a change in control of the Corporation.

## **B. Related Party Transactions**

Other than as set forth below, management of the Corporation is not aware of any material interest, direct or indirect, of any director or officer of the Corporation, any person beneficially owning, directly or indirectly, more than 10% of the Corporation's voting securities, or any associate or affiliate of any such person in any transaction within the last three years or in any proposed transaction which in either case has materially affected or will materially affect the Corporation or its subsidiaries.

On October 1, 2001, a two-year consulting contract was entered into with A.D. Friesen Enterprises Ltd., a corporation owned by Dr. Friesen. This agreement, which was subsequently amended on February 1, 2002, paid A.D. Friesen Enterprises Ltd. an annual salary of \$150,000 payable in monthly installments. On October 1, 2003 a new two year consulting contract was entered into with A.D. Friesen Enterprises Ltd. for an annual salary of \$175,000. On October 1, 2005, a one-year consulting contract was entered into with A.D. Friesen Enterprises Ltd. for an annual salary of \$200,000. On October 1, 2006, a two-year consulting contract was entered into with A.D. Friesen Enterprises Ltd. for an annual salary of \$250,000. This salary is reviewed annually by the Board. Dr. Friesen is also eligible for grants of incentive stock options and bonuses, if certain objectives between the Board and Dr. Friesen are met, as determined by the Board. During the year ended May 31, 2007, the Corporation paid a total of \$289,333 to A.D. Friesen Enterprises Ltd. During the year ended May 31, 2006, the Corporation paid a total of \$191,667 to A.D. Friesen Enterprises Ltd. For the year ended May 31, 2005, the Corporation paid a total of \$175,000 to A.D. Friesen Enterprises Ltd.

Dr. Friesen, a director, the Chairman, the President and the Chief Executive Officer of the Corporation also owns a leasing company, Waverley Business and Science Centre Inc. which entered into a lease with the Corporation as of March 1, 2002. The lease agreement was subsequently amended on March 15, 2005. Pursuant to this agreement, the Corporation leases approximately 4,000 square feet of office space from Waverley Business and Science Centre Inc. for minimum annual rental payments of \$44,264, with additional overhead payable under the lease dependant on usage. During fiscal 2007, \$24,760 was paid in excess of minimum rental payments for overhead costs.

Dr. Naranjan Dhalla, the Chief Scientific Officer of the Corporation, is the principal scientist responsible for discovering the cardiovascular benefits of MC-1. He is also a significant shareholder of the Corporation. As an employee of the University of Manitoba he will receive 25% of any royalties the university may receive in respect to the License Agreement. In addition, Dr. Dhalla entered into a consulting agreement with the Corporation effective January 18, 1998 wherein Dr. Dhalla agreed to perform certain consulting services to the Corporation and which contract remains in effect as at the date hereof. The Corporation is currently paying Dr. Dhalla \$40,000 per annum for

these services through a contract with CanAm Bioresearch Inc.

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**C. Interests of Experts and Counsel**

Not applicable

**ITEM 8. FINANCIAL INFORMATION****A. Consolidated Statements or Other Financial Information*****Financial Statements***

Included in Item 17 hereto are the consolidated financial statements of the Corporation for the years ended May 31, 2007, 2006 and 2005. The consolidated financial statements including related notes are accompanied by the report of the Corporation's independent registered public accounting firm, KPMG LLP.

***Legal Proceedings***

There are no legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings and those involving any third party, which may have, or have had in the recent past, significant effects on the Corporation's financial position or profitability. There are no legal proceedings to which the Corporation is a party, nor to the best of the knowledge of the Corporation's management are any legal proceedings contemplated.

***Dividend Policy***

The Corporation has not paid dividends in the past and it has no present intention of paying dividends on its shares as it anticipates that all available funds will be invested to finance the growth of its business. The directors of the Corporation will determine if and when dividends should be declared and paid in the future based upon the Corporation's financial position at the relevant time. All of the Corporation's Shares are entitled to an equal share of any dividends declared and paid.

**B. Significant Changes**

On August 20, 2007, the Corporation entered into a securities purchase agreement with an unrelated investor to raise gross proceeds of US\$15 million. Under the terms of the agreement, the Corporation intends to issue approximately 13.04 million common shares together with warrants to purchase approximately 3.9 million additional common shares (the common shares and warrants comprise the Units), at a price of US\$1.15 per Unit. The warrants have a five-year term and will have an exercise price of US\$1.50 each. The agreement is expected to close in September 2007, and is subject to standard closing conditions including regulatory approval. In a separate transaction, the Corporation has signed a non-binding term sheet dated August 20, 2007 to monetize a percentage of the Corporation's current and potential future commercial revenues with Manchester Securities Corp., an affiliate of Elliott Associates, L.P. (Elliott) for a US\$25 million up-front cash payment. Under the proposed terms, Elliott will receive an annual return that will be calculated as a percentage of AGGRASTAT® net sales subject to an escalating minimum annual return, until 2019. The minimum annual returns start at US\$2.5 million in 2007 and escalate to US\$6.9 million in 2016. Elliott will also receive the option to convert its rights based on AGGRASTAT® to MC-1 within six months after MC-1's commercialization, if achieved. The exact percentage of AGGRASTAT® or MC-1 revenue that Elliott will receive is tiered and declines as certain revenue levels are achieved. Upon conversion to MC-1, Elliott is entitled to a blended return of approximately 7 percent on the first US\$75 million in MC-1 revenues and 3 percent thereafter. Elliott's participation rights shall be secured by a first security interest in the intellectual property rights of the Corporation in AGGRASTAT® and MC-1 (subject to certain specified MC-1 lien release terms), the proceeds derived from the commercialization of AGGRASTAT® and MC-1 (including without limitation any royalties receivable derived from

any licensing of AGGRASTAT® and MC-1 to any third party and accounts receivable from the sale of AGGRASTAT® and MC-1 products), and all intellectual, proprietary and other rights (including without limitation contractual promotion and licensing rights and benefits) associated with, or derived from, AGGRASTAT® and MC-1. The proposed terms also include an option for the Corporation to terminate the agreement for a payment of US \$70 million to Elliott if the

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U.S. Food & Drug Administration approves MC-1 for sale to the public. The Corporation will also issue to Elliott ten-year warrants to purchase 1 million common shares at an exercise price of US\$1.26.

The Elliott agreement is subject to a number of closing conditions, including the amendment, described below, of the Corporation's credit agreement dated August 8, 2006 and the execution of a definitive agreement. The transaction is expected to close in September 2007.

In conjunction with the financing transactions described above, the Corporation has agreed to an amendment with its existing lenders to certain of the covenants provided for in its credit agreement, dated August 8, 2006. The lenders and the Corporation have agreed, subject to certain conditions:

- i) From and after August 17, 2007, but no later than April 30, 2008, the Corporation shall receive additional cash for working capital in a total aggregate amount of at least US\$35 million from any and/or a combination of any of the sources described above, provided that (1) at least US\$15 million of such aggregate amount must be received by the Corporation no later than September 30, 2007 and (2) a further US\$15 million of such aggregate amount must be received by the Corporation no later than February 28, 2008 and (3) a further US\$5 million of such aggregate amount must be received by the Corporation no later than April 30, 2008. The Corporation intends that the additional cash to meet this test will come from the subscription agreement and term sheet described above.
- ii) To amend the credit agreement such that the Corporation is required to achieve the following minimum net revenue requirements from sales of AGGRASTAT®:
  - Calendar 2007 - nil
  - Calendar 2008 - US\$15 million
  - Calendar 2009 - US\$23 million
- iii) The Corporation will deposit US\$10 million in a cash collateral account to be held by Merrill Lynch Capital Inc. (Merrill), for the benefit of Merrill and the lenders, on closing of the financing transactions described above.

The ability of the Corporation to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on many factors, including, but not limited to, the actual closing of the above financings, including the completion of the appropriate amendment to its existing financing agreement, under the terms described above and meeting any applicable financial covenants on an ongoing basis.

## **ITEM 9. THE OFFERING AND LISTING**

### **A. Listing Details**

The Corporation's common shares are listed and traded on The Toronto Stock Exchange ( TSX ) under the symbol MPH and The American Stock Exchange ( Amex ) under the symbol MCU . The historical trading data for the common shares of the Corporation on the above-mentioned exchanges is set out below.

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<b>Fiscal Period/Year Ended</b>	<b>TSX High (\$)</b>	<b>TSX Low (\$)</b>	<b>Amex (1) High (\$US)</b>	<b>Amex (1) Low (\$US)</b>
May 31, 2007	1.88	1.10	1.70	0.91
May 31, 2006	2.37	0.83	2.07	0.66
May 31, 2005	1.87	0.65	1.37	0.57
May 31, 2004	2.85	0.73	2.14	1.10
May 31, 2003	1.13	0.20	N/A	N/A

#### **Fiscal Quarter Ended**

May 31, 2007	1.55	1.13	1.37	0.97
February 28, 2007	1.64	1.10	1.43	0.91
November 30, 2006	1.88	1.37	1.70	1.21
August 31, 2006	1.88	1.27	1.70	1.20
May 31, 2006	2.37	1.52	2.07	1.41
February 28, 2006	1.85	1.32	1.70	1.15
November 30, 2005	1.44	0.85	1.17	0.72
August 31, 2005	1.20	0.83	0.95	0.66

#### **Month**

June 2007	1.48	1.15	1.40	1.09
May 2007	1.48	1.18	1.35	1.10
April 2007	1.55	1.29	1.37	1.12
March 2007	1.31	1.13	1.15	0.97
February 2007	1.43	1.10	1.22	0.91
January 2007	1.58	1.36	1.35	1.16

Note:

(1) The Corporation commenced trading on the American Stock Exchange on February 17, 2004.

### **C. Markets**

The Corporation's common shares commenced trading on the Toronto Stock Exchange on March 15, 2002 and on the American Stock Exchange on February 17, 2004.

#### ***Amex Corporate Governance***

Section 110 of the Amex company guide permits Amex to consider the laws, customs and practices of foreign issuers in relaxing certain Amex listing criteria, and to grant exemptions from Amex listing criteria based on these considerations. A company seeking relief under these provisions is required to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A description of the significant ways in which the Corporation's governance practices differ from those followed by domestic companies pursuant to Amex standards is as follows:

*Quorum Requirement:* Section 123 of the Amex company guide requires that the quorum for meeting of shareholders of a listed company be not less than 33 1/3% of the issued and outstanding shares entitled to vote at a meeting of shareholders. The Corporation's quorum requirement is specified in its By-laws. A quorum for a meeting of members of the Corporation is one person present or represented by proxy and holding in all not less than 5% of the issued capital of the Corporation carrying voting rights.

The foregoing is consistent with the laws, customs and practices in Canada.

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**ITEM 10. ADDITIONAL INFORMATION****A. Share Capital**

Not applicable

**B. Memorandum and Articles of Association****1. Objects and Purposes of the Corporation**

The Memorandum of the Corporation places no restrictions upon the Corporation's objects and purposes.

**2. Directors**

Under applicable Canadian law, the directors and officers of the Corporation, in exercising their powers and discharging their duties, must act honestly and in good faith with a view to the best interests of the Corporation. The directors and officers must also exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Section 4.14 of By-Law No.1 of the Corporation (the By-Law) provides that a director shall not be disqualified by reason of his office from contracting with the Corporation or a subsidiary thereof. Subject to the provisions of the *Canada Business Corporations Act* (the Act), a director shall not by reason only of his office be accountable to the Corporation or its shareholders for any profit or gain realized from a contract or transaction in which he has an interest. Such contract or transaction shall not be voidable by reason only of such interest, or by reason only of the presence of a director so interested at a meeting, or by reason only of his presence being counted in determining a quorum at a meeting of the directors at which such a contract or transaction is approved, provided that a declaration and disclosure of such interest shall have been made at the time and in the manner prescribed by section 120 of the Act, and the director so interested shall have refrained from voting as a director on the resolution approving the contract or transaction (except as permitted by the Act) and such contract shall have been reasonable and fair to the Corporation and shall have been approved by the directors or shareholders of the Corporation as required by section 120 of the Act.

Section 4.01 of the By-Law states that the exact number of directors to form the board shall be determined from time to time by the directors of the Corporation entitled to vote at regular meetings. A quorum of the board shall be a majority of the board. No business shall be transacted at a meeting unless a quorum is present.

Section 3.01 of the By-Law states that the board may, without the authorization of the shareholders:

- i) borrow money upon the credit of the Corporation;
- ii) issue, reissue, sell or pledge debt obligations of the Corporation, including bonds, debentures, notes or other evidences of indebtedness or guarantees, whether secured or unsecured;
- iii) subject to section 44 of the Act, give a guarantee on behalf of the Corporation to secure performance of an obligation of any person; and
- iv) mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Corporation, owned or subsequently acquired, to secure any obligation of the Corporation.

The borrowing powers of the directors can be varied by amending the By-Law of the Corporation.

There is no provision in the By-Law imposing a requirement for retirement or non-retirement of directors under an age limit requirement.

Section 4.02 states that a director need not be a shareholder to be qualified as a director.

3. Shares

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The Articles of the Corporation provide that the Corporation is authorized to issue an unlimited number of shares designated as Common Shares, Class A Common Shares and Preferred Shares. Except for meetings at which only holders of another specified class or series of shares of the Corporation are entitled to vote separately as a class or series, each holder of the Common and Class A shares is entitled to receive notice of, to attend and to vote at all meetings of the shareholders of the Corporation. Subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, the holders of the Common and Class A shares are also entitled to receive dividends if, as and when declared by the directors of the Corporation and are entitled to share equally in the remaining property of the Corporation upon liquidation, dissolution or winding-up of the Corporation.

The Preferred Shares may from time to time be issued in one or more series and, subject to the following provisions, and subject to the sending of articles of amendment in respect thereof, the directors may fix from time to time and before issue a series of Preferred Shares, the number of shares which are to comprise that series and the designation, rights, privileges, restrictions and conditions to be attached to that series of Preferred Shares including, without limiting the generality of the foregoing, the rate or amount of dividends or the method of calculating dividends, the dates of payment of dividends, the redemption, purchase and/or conversion, and any sinking fund or other provisions.

The Preferred Shares of each series shall, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other return of capital or distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, rank on a parity with the Preferred Shares of every other series and be entitled to preference over the Common and Class A Common Shares and over any other shares of the Corporation ranking junior to the Preferred Shares. The Preferred Shares of any series may also be given other preferences, not inconsistent with these articles, over the Common Shares and Class A Common Shares and any other shares of the Corporation ranking junior to the Preferred Shares of a series as may be fixed in accordance with terms outlined above.

If any cumulative dividends or amounts payable on the return of capital in respect of a series of Preferred Shares are not paid in full, all series of Preferred Shares shall participate rateably in respect of accumulated dividends and return of capital.

Unless the directors otherwise determine in the articles of amendment designating a series of Preferred Shares, the holder of each share or a series of Preferred Shares shall not, as such, be entitled to receive notice of or vote at any meeting of shareholders, except as otherwise specifically provided in the Act.

#### 4. Rights of Shareholders

Under the Act, shareholders of the Corporation are entitled to examine, during its usual business hours, the Corporation's articles and by-laws, notices of directors and change of directors, any unanimous shareholder agreements, the minutes of meetings and resolutions of shareholders and the list of shareholders.

Shareholders of the Corporation may obtain a list of shareholders upon payment of a reasonable fee and sending an affidavit to the Corporation or its transfer agent stating, among other things, that the list of shareholders will not be used by any person except in connection with an effort to influence the voting of shareholders of the Corporation, an offer to acquire shares of the Corporation or any other matter relating to the affairs of the Corporation.

Under the Act, shareholders of the Corporation may apply to a court having jurisdiction directing an investigation to be made of the Corporation. If it appears to the court that the formation, business or affairs of the Corporation were conducted for fraudulent or unlawful purposes, or that the powers of the directors were exercised in a manner that is oppressive or unfairly disregards the interests of the shareholders, the court may order an investigation to be made of the Corporation.

To change the rights of holders of stock, where such rights are attached to an issued class or series of shares, requires the consent by a separate resolution of the holders of the class or series of shares, as the case may be, requiring a majority of two-thirds of the votes cast.

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The Corporation is organized under the laws of Canada. The Corporation's directors, officers, and affiliates of the Corporation, as well as the experts named in this registration statement, are residents of Canada and, to the best of the Corporation's knowledge, all or a substantial portion of their assets and all of the Corporation's assets are located outside of the United States. As a result, it may be difficult for shareholders of the Corporation in the United States to effect service of process on the Corporation or these persons above within the United States, or to realize in the United States upon judgments rendered against the Corporation or such persons. Additionally, a shareholder of the Corporation should not assume that the courts of Canada (i) would enforce judgments of U.S. courts obtained in actions against the Corporation or such persons predicated upon the civil liability provisions of the U.S. federal securities laws or other laws of the United States, or (ii) would enforce, in original actions, liabilities against the Corporation or such persons predicated upon the U.S. federal securities laws or other laws of the United States.

Laws in the United States and judgments of U.S. courts would generally be enforced by a court of Canada unless such laws or judgments are contrary to public policy in Canada, are or arise from foreign penal laws or laws that deal with taxation or the taking of property by a foreign government and are not in compliance with applicable laws in Canada regarding the limitation of actions. Further, a judgment obtained in a U.S. court would generally be recognized by a court of Canada, except under the following examples:

- i) the judgment was rendered in a U.S. court that had no jurisdiction according to applicable laws in Canada;
- ii) the judgment was subject to ordinary remedy (appeal, judicial review and any other judicial proceeding which renders the judgment not final, conclusive or enforceable under the laws of the applicable state) or not final, conclusive or enforceable under the laws of the applicable state;
- iii) the judgment was obtained by fraud or in any manner contrary to natural justice or rendered in contravention of fundamental principles of procedure; and
- iv) a dispute between the same parties, based on the same subject matter has given rise to a judgment rendered in a court of Canada or has been decided in a third country and the judgment meets the necessary conditions for recognition in a court of Canada.

#### 5. Meetings

Subject to the provisions of the Act, the annual general meeting of the shareholders shall be on such date in each year as the board of directors may determine, and a special meeting of the shareholders may be convened at any time by order of the President or by the board on their own motion or on the requisition of shareholders as provided for in the Act. Notice of the time and place of each meeting of shareholders shall be given not less than 21 days nor more than 60 days before the date of the meeting to each director and shareholder. A meeting of shareholders may be held without notice at any time and at any place provided a waiver of notice is obtained in accordance with section 136 of the Act. The quorum for the transaction of business at meetings of the shareholders shall consist of not less than one (1) shareholder present or represented by proxy and holding in all not less than five (5%) percent of the issued capital of the Corporation carrying voting rights. At any meeting of shareholders, every person shall be entitled to vote who, at the time of the taking of a vote (or, if there is a record date for voting, at the close of business on such record date) is entered in the register of shareholders as the holder of one or more shares carrying the right to vote at such meeting, subject to the provisions of the Act.

#### 6. Ownership of Securities

There are no limitations on the right to own securities, imposed by foreign law or by the By-Law or other constituent document of the Corporation.

#### 7. Change in Control of Corporation

No provision of the Corporation's articles of association, charter or By-Law would have the effect of delaying, deferring, or preventing a change in control of the Corporation, and operate only with respect to a merger, acquisition or corporate restructuring of the Corporation or any of its subsidiaries.

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## 8. Ownership Threshold

The Manitoba and Ontario *Securities Acts* provide that a person that has direct or indirect beneficial ownership of, control or direction over, or a combination of direct or indirect beneficial ownership of, and control or direction over, securities of the issuer carrying more than 10% of the voting rights attached to all the issuer's outstanding voting securities must, within 10 days of becoming an "insider", file an insider report in the required form effective the date on which the person became an insider, disclosing any direct or indirect beneficial ownership of, or control or direction over, securities of the reporting issuer. The Manitoba and Ontario *Securities Acts* also provide for the filing of a report by an "insider" of a reporting issuer who acquires or transfers securities of the issuer. This insider report must be filed within 10 days after the change takes place.

The U.S. rules governing the ownership threshold above which shareholder ownership must be disclosed are more stringent than those discussed above. Section 13 of the Exchange Act imposes reporting requirements on persons who acquire beneficial ownership (as such term is defined in the Rule 13d-3 under the Exchange Act) of more than 5 per cent of a class of an equity security registered under Section 12 of the Exchange Act. In general, such persons must file, within 10 days after such acquisition, a report of beneficial ownership with the Securities and Exchange Commission containing the information prescribed by the regulations under Section 13 of the Exchange Act. This information is also required to be sent to the issuer of the securities and to each exchange where the securities are traded.

## C. Material Contracts

The following are the material contracts of the Corporation, other than those mentioned elsewhere in this Form, to which the Corporation or any member of the group is a party, for the two years immediately preceding publication of this registration statement.

- a) Amendment to Employment Agreement dated October 1, 2005 between A.D. Friesen Enterprises Ltd. and the Corporation.
- b) Amendment to Development Agreement dated June 1, 2000 between CanAm Bioresearch Inc. and Medicure International Inc. dated July 4, 2006.
- c) Amendment to Development Agreement dated July 2, 2004 between Medicure International Inc. and Clinical Development Research Institute Inc. dated July 4, 2006.
- d) Amended Stock Option Plan approved October 25, 2005.
- e) Amendment to Employment Agreement dated October 1, 2006 between A.D. Friesen Enterprises Ltd. and the Corporation.

## D. Exchange Controls

There is no law or government decree of regulation in Canada that restricts the export or import of capital, or that affects the remittance of dividends, interest or other payments to a non-resident holder of Common Shares, other than withholding tax requirements. See "Item 7 Taxation."

There is no limitation imposed by Canadian law or by the articles or other charter documents of the Corporation on the right of a non-resident to hold or vote the Common Shares or the Class A common shares of the Corporation, other than as provided in the Investment Canada Act, as amended (the "Investment Act").

The Investment Act generally prohibits implementation of a reviewable investment by an individual, government or agency thereof, corporation, partnership, trust or joint venture that is a "non-Canadian" as defined in the Investment Act (a "non-Canadian"), unless, after review the Minister responsible for the Investment Act is satisfied that the investment is likely to be of net benefit to Canada. If an investment by a non-Canadian is not a reviewable investment,

it nevertheless requires the filing of a short notice which may be given at any time up to 30 days after the implementation of the investment.

An investment in Common Shares of the Corporation by a non-Canadian that is a "WTO investor" (an individual or other entity that is a national of, or has the right of permanent residence in, a member of the

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World Trade Organization, current members of which include the European Community, Germany, Japan, Mexico, the United Kingdom and the United States, or a WTO investor-controlled entity, as defined in the Investment Act) would be reviewable under the Investment Act if it were an investment to acquire direct control, through a purchase of assets or voting interests, of the Corporation and the value of the assets of the Corporation equalled or exceeded \$184 million, the threshold established for 1999, as indicated on the financial statements of the Corporation for its fiscal year immediately preceding the implementation of the investment. In subsequent years, such threshold amount may be increased or decreased in accordance with the provisions of the Investment Act.

An investment in Common Shares of the Corporation by a non-Canadian, other than a WTO investor, would be reviewable under the Investment Act if it were an investment to acquire direct control of the Corporation and the value of the assets were \$5.0 million or more, as indicated on the financial statements of the Corporation for its fiscal year immediately preceding the implementation of the investment.

A non-Canadian, whether a WTO investor or otherwise, would acquire control of the Corporation for the purposes of the Investment Act if he, she or it acquired a majority of the Common Shares of the Corporation or acquired all or substantially all of the assets used in conjunction with the Corporation's business. The acquisition of less than a majority, but one-third or more of the Common Shares of the Corporation, would be presumed to be an acquisition of control of the Corporation unless it could be established that the Corporation was not controlled in fact by the acquirer through the ownership of the Common Shares.

The Investment Act would not apply to certain transactions in relation to Common Shares of the Corporation, including:

- (a) an acquisition of Common Shares of the Corporation by any person if the acquisition were made in the ordinary course of that person's business as a trader or dealer in securities;
- (b) an acquisition of control of the Corporation in connection with the realization of security granted for a loan or other financial assistance and not for any purpose related to the provisions of the Investment Act; and
- (c) an acquisition of control of the Corporation by reason of an amalgamation, merger, consolidation or corporate reorganization following which the ultimate direct or indirect control in fact of the Corporation, through the ownership of voting interests, remains unchanged.

## **E. Taxation**

### **U.S. Federal Income Tax Consequences**

The following is a summary of certain material U.S. federal income tax consequences to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of Common Shares acquired pursuant to this prospectus.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax consequences that may apply to a U.S. Holder as a result of the acquisition, ownership, and disposition of Common Shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. Each U.S. Holder should consult its own tax advisor regarding the U.S. federal income, U.S. state and local, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the IRS ) has been requested, or will be obtained, regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares. This summary is not binding on the IRS, and

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63 the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the positions taken in this summary.

## **Scope of this Summary**

### Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the Code), Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the Canada-U.S. Tax Convention), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this prospectus. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive basis. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive basis.

### U.S. Holders

For purposes of this summary, a U.S. Holder is a beneficial owner of Common Shares that, for U.S. federal income tax purposes, is (a) an individual who is a citizen or resident of the U.S., (b) a corporation, or any other entity classified as a corporation for U.S. federal income tax purposes, that is created or organized in or under the laws of the U.S., any state in the U.S., or the District of Columbia, (c) an estate if the income of such estate is subject to U.S. federal income tax regardless of the source of such income, or (d) a trust if (i) such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or (ii) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust.

### Non-U.S. Holders

For purposes of this summary, a non-U.S. Holder is a beneficial owner of Common Shares other than a U.S. Holder. This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to non-U.S. Holders. Accordingly, a non-U.S. Holder should consult its own tax advisor regarding the U.S. federal income, U.S. state and local, and foreign tax consequences (including the potential application of and operation of any income tax treaties) of the acquisition, ownership, and disposition of Common Shares.

### U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to U.S. Holders that are subject to special provisions under the Code, including the following U.S. Holders: (a) U.S. Holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) U.S. Holders that are financial institutions, insurance companies, real estate investment trusts, or regulated investment companies; (c) U.S. Holders that are dealers in securities or currencies or U.S. Holders that are traders in securities that elect to apply a mark-to-market accounting method; (d) U.S. Holders that have a functional currency other than the U.S. dollar; (e) U.S. Holders that are liable for the alternative minimum tax under the Code; (f) U.S. Holders that own Common Shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position; (g) U.S. Holders that acquired Common Shares in connection with the exercise of employee stock options or otherwise as compensation for services; (h) U.S. Holders that hold Common Shares other than as a capital asset within the meaning of Section 1221 of the Code; or (i) U.S. Holders that own (directly, indirectly, or constructively) 10% or more of the

total combined voting power of all classes of shares of the Corporation entitled to vote. U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult their own tax advisors

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regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Common Shares, the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares to such partnership and the partners of such partnership generally will depend on the activities of the partnership and the status of such partners. Partners of entities that are classified as partnerships for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

#### Tax Consequences Other than U.S. Federal Income Tax Consequences Not Addressed

This summary does not address any U.S. federal tax consequences other than U.S. federal income tax consequences, or any U.S. state and local or (except as specifically discussed below in Canadian Federal Income Tax Considerations for United States Residences ) foreign tax consequences to U.S. Holders of the acquisition, ownership, and disposition of Common Shares. Each U.S. Holder should consult its own tax advisor regarding the U.S. state and local, U.S. federal estate and gift, and foreign tax consequences of the acquisition, ownership, and disposition of Common Shares.

#### **U.S. Federal Income Tax Consequences of the Acquisition, Ownership, and Disposition of Common Shares**

##### Distributions on Common Shares

###### *General Taxation of Distributions*

Subject to the passive foreign investment company rules discussed below, a U.S. Holder that receives a distribution, including a constructive distribution, with respect to the Common Shares will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of the current or accumulated earnings and profits of the Corporation. To the extent that a distribution exceeds the current and accumulated earnings and profits of the Corporation, such distribution will be treated (a) first, as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the Common Shares and, (b) thereafter, as gain from the sale or exchange of such Common Shares. (See Disposition of Common Shares below).

###### *Reduced Tax Rates for Certain Dividends*

For taxable years beginning before January 1, 2011, a dividend paid by the Corporation generally will be taxed at the preferential tax rates applicable to long-term capital gains if (a) the Corporation is a qualified foreign corporation (as defined below), (b) the U.S. Holder receiving such dividend is an individual, estate, or trust, and (c) such dividend is paid on Common Shares that have been held by such U.S. Holder for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date.

The Corporation generally will be a qualified foreign corporation under Section 1(h)(11) of the Code (a QFC ) if (a) the Corporation is incorporated in a possession of the U.S., (b) the Corporation is eligible for the benefits of the Canada-U.S. Tax Convention, or (c) the Common Shares are readily tradable on an established securities market in the U.S. However, even if the Corporation satisfies one or more of such requirements, the Corporation will not be treated as a QFC if the Corporation is a passive foreign investment company (as defined below) for the taxable year during which the Corporation pays a dividend or for the preceding taxable year. In 2003, the U.S. Department of the Treasury (the Treasury ) and the IRS announced that they intended to issue Treasury Regulations providing procedures for a foreign corporation to certify that it is a QFC. Although these Treasury Regulations have not yet been issued, the Treasury and the IRS have confirmed their intention to issue these Treasury Regulations. It is expected that these

Treasury Regulations will obligate persons required to file information returns to report a dividend paid by a foreign corporation as a dividend from a QFC if the foreign corporation has, among other things, certified under penalties of perjury that the foreign corporation was not a passive

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foreign investment company for the taxable year during which the foreign corporation paid the dividend or for the preceding taxable year.

As discussed below, the Corporation expects that it will be a passive foreign investment company for its current taxable year, and the Corporation expects that it will be a passive foreign investment company for one or more subsequent taxable years. (See Additional Rules that May Apply to U.S. Holders Passive Foreign Investment Corporation below). Accordingly, the Corporation does not expect to be a QFC for its current taxable year, and the Corporation may not be a QFC for subsequent taxable years.

If the Corporation is not a QFC, a dividend paid by the Corporation to a U.S. Holder, including a U.S. Holder that is an individual, estate, or trust, generally will be taxed at ordinary income tax rates (and not at the preferential tax rates applicable to long-term capital gains). The dividend rules are complex, and each U.S. Holder should consult its own tax advisor regarding the dividend rules.

#### *Distributions Paid in Foreign Currency*

The amount of a distribution received on the Common Shares in foreign currency generally will be equal to the U.S. dollar value of such distribution based on the exchange rate applicable on the date of receipt. A U.S. Holder that does not convert foreign currency received as a distribution into U.S. dollars on the date of receipt generally will have a tax basis in such foreign currency equal to the U.S. dollar value of such foreign currency on the date of receipt. Such a U.S. Holder generally will recognize ordinary income or loss on the subsequent sale or other taxable disposition of such foreign currency (including an exchange for U.S. dollars).

#### *Dividends Received Deduction*

Dividends received on the Common Shares generally will not be eligible for the dividends received deduction. The availability of the dividends received deduction is subject to complex limitations that are beyond the scope of this summary, and a U.S. Holder that is a corporation should consult its own tax advisor regarding the dividends received deduction.

#### Disposition of Common Shares

A U.S. Holder will recognize gain or loss on the sale or other taxable disposition of Common Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's adjusted tax basis in the Common Shares sold or otherwise disposed of. Subject to the passive foreign investment company rules discussed below, any such gain or loss generally will be capital gain or loss, which will be long-term capital gain or loss if the Common Shares are held for more than one year.

Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

#### Foreign Tax Credit

A U.S. Holder that pays (whether directly or through withholding) Canadian income tax with respect to dividends received on the Common Shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax paid. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether

directly or through withholding) by a U.S. Holder during a taxable year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's foreign source taxable income bears to such U.S. Holder's worldwide taxable income. In applying this

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limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either foreign source or U.S. source. In addition, this limitation is calculated separately with respect to specific categories of income (including passive income, high withholding tax interest, financial services income, general income, certain other categories of income). Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of Common Shares generally will be treated as U.S. source for purposes of applying the foreign tax credit rules. Dividends received on the Common Shares generally will be treated as foreign source and generally will be categorized as passive income or, in the case of certain U.S. Holders, financial services income for purposes of applying the foreign tax credit rules. However, for taxable years beginning after December 31, 2006, the foreign tax credit limitation categories are reduced to passive category income and general category income (and the other categories of income, including financial services income, are eliminated). The foreign tax credit rules are complex, and each U.S. Holder should consult its own tax advisor regarding the foreign tax credit rules.

#### Information Reporting: Backup Withholding Tax

Payments made within the U.S., or by a U.S. payor or U.S. middleman, of dividends on, or proceeds arising from the sale or other taxable disposition of, Common Shares generally will be subject to information reporting and backup withholding tax, at the rate of 28%, if a U.S. Holder (a) fails to furnish such U.S. Holder's correct U.S. taxpayer identification number (generally on Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, U.S. Holders that are corporations generally are excluded from these information reporting and backup withholding tax rules. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a credit against a U.S. Holder's U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS. Each U.S. Holder should consult its own tax advisor regarding the information reporting and backup withholding tax rules.

#### **Additional Rules that May Apply to U.S. Holders**

If the Corporation is a passive foreign investment company (as defined below), the preceding sections of this summary may not describe the U.S. federal income tax consequences to a U.S. Holder of the acquisition, ownership, and disposition of Common Shares.

#### Passive Foreign Investment Company

The Corporation generally will be a passive foreign investment company under Section 1297(a) of the Code (a PFIC) if, for a taxable year, (a) 75% or more of the gross income of the Corporation for such taxable year is passive income or (b) on average, 50% or more of the assets held by the Corporation either produce passive income or are held for the production of passive income, based on the fair market value of such assets (or on the adjusted tax basis of such assets, if the Corporation is not publicly traded and either is a controlled foreign corporation or makes an election).

Passive income includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

For purposes of the PFIC income test and asset test described above, if the Corporation owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another foreign corporation, the Corporation will be treated as if it (a) held a proportionate share of the assets of such other foreign corporation and (b) received directly a proportionate share of the income of such other foreign corporation. In addition, for purposes of the PFIC income test and asset test described above, passive income does not include any interest, dividends, rents, or royalties that are received or accrued by the Corporation from a related person (as defined in Section 954(d)(3) of the Code), to the

extent such items are properly allocable to the income of such related person that is not passive income.

The Corporation expects that it will be a PFIC for its current taxable year, and the Corporation expects that it will be a PFIC for one or more subsequent taxable years. The determination of whether the

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Corporation will be a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to various interpretations. In addition, whether the Corporation will be a PFIC for its current taxable and each subsequent taxable year depends on the assets and income of the Corporation over the course of each such taxable year and, as a result, cannot be predicted with certainty as of the date of this prospectus. Accordingly, there can be no assurance that the IRS will not challenge the determination made by the Corporation concerning its PFIC status or that the Corporation will not be a PFIC for any taxable year.

#### *Default PFIC Rules Under Section 1291 of the Code*

If the Corporation is a PFIC, the U.S. federal income tax consequences to a U.S. Holder of the acquisition, ownership, and disposition of Common Shares will depend on whether such U.S. Holder makes an election to treat the Corporation as a qualified electing fund or QEF under Section 1295 of the Code (a QEF Election ) or a mark-to-market election under Section 1296 of the Code (a Mark-to-Market Election ). A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a Non-Electing U.S. Holder.

A Non-Electing U.S. Holder will be subject to the rules of Section 1291 of the Code with respect to (a) any gain recognized on the sale or other taxable disposition of Common Shares and (b) any excess distribution received on the Common Shares. A distribution generally will be an excess distribution to the extent that such distribution (together with all other distributions received in the current taxable year) exceeds 125% of the average distributions received during the three preceding taxable years (or during a U.S. Holder's holding period for the Common Shares, if shorter).

Under Section 1291 of the Code, any gain recognized on the sale or other taxable disposition of Common Shares, and any excess distribution received on the Common Shares, must be ratably allocated to each day in a Non-Electing U.S. Holder's holding period for the Common Shares. The amount of any such gain or excess distribution allocated to prior years of such Non-Electing U.S. Holder's holding period for the Common Shares (other than years prior to the first taxable year of the Corporation beginning after December 31, 1986 for which the Corporation was not a PFIC) will be subject to U.S. federal income tax at the highest tax rate applicable to ordinary income in each such prior year. A Non-Electing U.S. Holder will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year. Such a Non-Electing U.S. Holder that is not a corporation must treat any such interest paid as personal interest, which is not deductible. The amount of any such gain or excess distribution allocated to the current year of such Non-Electing U.S. Holder's holding period for the Common Shares will be treated as ordinary income in the current year, and no interest charge will be incurred with respect to the resulting tax liability for the current year.

If the Corporation is a PFIC for any taxable year during which a Non-Electing U.S. Holder holds Common Shares, the Corporation will continue to be treated as a PFIC with respect to such Non-Electing U.S. Holder, regardless of whether the Corporation ceases to be a PFIC in one or more subsequent taxable years. A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if such Common Shares were sold on the last day of the last taxable year for which the Corporation was a PFIC.

#### *QEF Election*

The procedure for making a QEF Election, and the U.S. federal income tax consequences of making a QEF Election, will depend on whether such QEF Election is timely. A QEF Election generally will be timely if it is made for the first year in a U.S. Holder's holding period for the Common Shares in which the Corporation is a PFIC. In this case, a U.S. Holder may make a timely QEF Election by filing the appropriate QEF Election documents with such U.S. Holder's U.S. federal income tax return for such first year. However, if the Corporation was a PFIC in a prior year in a U.S. Holder's holding period for the Common Shares, then in order to be treated as making a timely QEF Election, such

U.S. Holder must elect to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if the Common Shares were sold on the qualification date for an amount equal to the fair market value of the Common Shares on the qualification date. The qualification date is the first day of the first taxable year in which the Corporation was a QEF with respect to such U.S. Holder. In addition, under

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very limited circumstances, a U.S. Holder may make a retroactive QEF Election if such U.S. Holder failed to file the QEF Election documents in a timely manner.

A QEF Election will apply to the taxable year for which such QEF Election is made and to all subsequent taxable years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Holder makes a QEF Election and, in a subsequent taxable year, the Corporation ceases to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those taxable years in which the Corporation is not a PFIC. Accordingly, if the Corporation becomes a PFIC in another subsequent taxable year, the QEF Election will be effective and the U.S. Holder will be subject to the QEF rules described above during any such subsequent taxable year in which the Corporation qualifies as a PFIC. In addition, the QEF Election will remain in effect (although it will not be applicable) with respect to a U.S. Holder even after such U.S. Holder disposes of all of such U.S. Holder's direct and indirect interest in the Common Shares. Accordingly, if such U.S. Holder reacquires an interest in the Corporation, such U.S. Holder will be subject to the QEF rules described above for each taxable year in which the Corporation is a PFIC.

A U.S. Holder that makes a timely QEF Election generally will not be subject to the rules of Section 1291 of the Code discussed above. For example, a U.S. Holder that makes a timely QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of Common Shares.

However, for each taxable year in which the Corporation is a PFIC, a U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such U.S. Holder's pro rata share of (a) the net capital gain of the Corporation, which will be taxed as long-term capital gain to such U.S. Holder, and (b) the ordinary earnings of the Corporation, which will be taxed as ordinary income to such U.S. Holder. Generally, net capital gain is the excess of (a) net long-term capital gain over (b) net short-term capital loss, and ordinary earnings are the excess of (a) earnings and profits over (b) net capital gain. A U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each taxable year in which the Corporation is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the Corporation. However, a U.S. Holder that makes a QEF Election may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Holder is not a corporation, any such interest paid will be treated as personal interest, which is not deductible.

A U.S. Holder that makes a QEF Election generally (a) may receive a tax-free distribution from the Corporation to the extent that such distribution represents earnings and profits of the Corporation that were previously included in income by the U.S. Holder because of such QEF Election and (b) will adjust such U.S. Holder's tax basis in the Common Shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election.

The Corporation currently intends to provide, for each taxable year that the Corporation is a PFIC, each U.S. Holder that has made a QEF Election with (a) a PFIC Annual Information Statement as described in Treasury Regulation Section 1.1295-1(g) and (b) all additional information that such U.S. Holder is required to obtain in connection with maintaining such QEF Election. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a QEF Election.

#### *Mark-to-Market Election*

A U.S. Holder may make a Mark-to-Market Election only if the Common Shares are marketable stock. The Common Shares generally will be marketable stock if the Common Shares are regularly traded on a qualified exchange or other market. For this purpose, a qualified exchange or other market includes (a) a national securities exchange that is registered with the Securities and Exchange Commission, (b) the national market system established pursuant to

section 11A of the Securities and Exchange Act of 1934 (the Exchange Act ), or (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, surveillance, and other requirements designed to prevent fraudulent and manipulative acts and practices, remove impediments to and perfect the mechanism of a free, open, fair, and orderly market, and protect investors (and the laws of the country in which the foreign exchange is located and the rules of the foreign exchange ensure that such requirements

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are actually enforced) and (ii) the rules of such foreign exchange effectively promote active trading of listed stocks. If the Common Shares are traded on such a qualified exchange or other market, the Common Shares generally will be regularly traded for any calendar year during which the Common Shares are traded, other than in de minimis quantities, on at least 15 days during each calendar quarter.

A Mark-to-Market Election applies to the taxable year in which such Mark-to-Market Election is made and to each subsequent taxable year, unless the Common Shares cease to be marketable stock or the IRS consents to revocation of such election. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

A U.S. Holder that makes a Mark-to-Market Election generally will not be subject to the rules of Section 1291 of the Code discussed above. However, if a U.S. Holder makes a Mark-to-Market Election after the beginning of such U.S. Holder's holding period for the Common Shares and such U.S. Holder has not made a timely QEF Election, the rules of Section 1291 of the Code discussed above will apply to certain dispositions of, and distributions on, the Common Shares.

A U.S. Holder that makes a Mark-to-Market Election will include in ordinary income, for each taxable year in which the Corporation is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the Common Shares as of the close of such taxable year over (b) such U.S. Holder's adjusted tax basis in such Common Shares. A U.S. Holder that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the lesser of (a) the excess, if any, of (i) such U.S. Holder's adjusted tax basis in the Common Shares over (ii) the fair market value of such Common Shares as of the close of such taxable year or (b) the excess, if any, of (i) the amount included in ordinary income because of such Mark-to-Market Election for prior taxable years over (ii) the amount allowed as a deduction because of such Mark-to-Market Election for prior taxable years.

A U.S. Holder that makes a Mark-to-Market Election generally will adjust such U.S. Holder's tax basis in the Common Shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of Common Shares, a U.S. Holder that makes a Mark-to-Market Election will recognize ordinary income or loss (not to exceed the excess, if any, of (a) the amount included in ordinary income because of such Mark-to-Market Election for prior taxable years over (b) the amount allowed as a deduction because of such Mark-to-Market Election for prior taxable years).

#### *Other PFIC Rules*

Under Section 1291(f) of the Code, the IRS has issued proposed Treasury Regulations that, subject to certain exceptions, would cause a U.S. Holder that had not made a timely QEF Election to recognize gain (but not loss) upon certain transfers of Common Shares that would otherwise be tax-deferred (such as gifts and exchanges pursuant to tax-deferred reorganizations under Section 368 of the Code). However, the specific U.S. federal income tax consequences to a U.S. Holder may vary based on the manner in which Common Shares are transferred.

Certain additional adverse rules will apply with respect to a U.S. Holder if the Corporation is a PFIC, regardless of whether such U.S. Holder makes a QEF Election. For example under Section 1298(b)(6) of the Code, a U.S. Holder that uses Common Shares as security for a loan will, except as may be provided in Treasury Regulations, be treated as having made a taxable disposition of such Common Shares.

The PFIC rules are complex, and each U.S. Holder should consult its own tax advisor regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

**Canadian Federal Income Tax Considerations for United States Residents**

The following is a summary of the principal Canadian federal income tax considerations generally applicable to the holding and disposition of Common Shares by a holder, (a) who for the purposes of the Income Tax Act (Canada) (the Tax Act ) at all relevant times, is not resident or deemed to be in Canada, deals at arm's length and is not affiliated with the Corporation for the purpose of the Tax Act, holds the

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Common Shares as capital property and does not use or hold the Common Shares in the course of carrying on, or otherwise in connection with, a business in Canada, and (b) who, for the purposes of the *Canada - United States Income Tax Convention* (the *Convention*) at all relevant times, is a resident of the United States, has never been a resident of Canada, has not held or used (and does not hold or use) Common Shares in connection with a permanent establishment or fixed base in Canada, and who otherwise qualifies for the full benefits of the *Convention*. Common Shares will generally be considered to be capital property to a holder unless such shares are held in the course of carrying on a business, or in an adventure or concern in the nature of trade. Holders who meet all the criteria in clauses (a) and (b) are referred to herein as a U.S. Holder or U.S. Holders and this summary only addresses the tax considerations to such U.S. Holders. The summary does not deal with special situations, such as the particular circumstances of traders or dealers, limited liability companies, tax exempt entities, insurers or financial institutions. Such holders should consult their own tax advisors.

This summary is based upon the current provisions of the Tax Act, the regulations thereunder in force at the date hereof ( *Regulations* ), all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and the current provisions of the *Convention* and the current administrative practices of the Canada Revenue Agency published in writing prior to the date hereof. This summary does not otherwise take into account or anticipate any changes in law or administrative practices whether by legislative, governmental or judicial decision or action, nor does it take into account tax laws of any province or territory of Canada or of the U.S. or of any other jurisdiction outside Canada.

For the purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the Common Shares must be converted into Canadian dollars based on the relevant exchange rate applicable thereto.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular U.S. Holder and no representation with respect to the federal income tax consequences to any particular U.S. Holder or prospective U.S. Holder is made. The tax liability of a U.S. Holder will depend on the holder's particular circumstances. Accordingly, U.S. Holders should consult with their own tax advisors for advice with respect to their own particular circumstances.**

#### *Dividends*

Amounts paid or credited or deemed to be paid or credited to a U.S. Holder as, on account or in lieu of payment, or in satisfaction of, dividends on Common Shares will be subject to Canadian withholding tax on the gross amount of the dividends. Under the *Convention*, the rate of Canadian withholding tax on dividends paid or credited by the Corporation to a U.S. Holder that beneficially owns such dividends is generally 15% unless the beneficial owner is a company which owns at least 10% of its voting stock at that time in which case the rate of Canadian withholding tax is reduced to 5%.

#### *Dispositions*

A U.S. Holder will generally not be subject to tax under the Tax Act on any capital gain realized on a disposition of Common Shares, provided that the shares do not constitute taxable Canadian property to the U.S. Holder at the time of disposition and the U.S. Holder is not entitled to relief under the *Convention*. Generally, Common Shares will not constitute taxable Canadian property to a U.S. Holder provided that such shares are listed on a prescribed stock exchange (which currently includes the TSX and AMEX) at the time of the disposition and, during the 60-month period immediately preceding the disposition, the U.S. Holder, persons with whom the U.S. Holder does not deal at arm's length, or the U.S. Holder together with all such persons has not owned 25% or more of the issued shares of any series or class of the Corporation's capital stock.

If the Common Shares constitute taxable Canadian property to a particular U.S. Holder, any capital gain arising on their disposition may be exempt from Canadian tax under the Convention if at the time of disposition the Common Shares do not derive their value principally from real property situated in Canada.

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## Canadian Federal Income Tax Consequences

The following is a summary of the principal Canadian federal income tax considerations, as of the date hereof, generally applicable to Security holders who deal at arm's length with the Corporation, who, for purposes of the Income Tax Act (Canada) (the "Canadian Tax Act") and any applicable tax treaty or convention, have not been and will not be resident or deemed to be resident in Canada at any time while they have held shares of the Corporation, to whom such shares are capital property, and to whom such shares are not "taxable Canadian property" (as defined in the Canadian Tax Act). This summary does not apply to a non-resident insurer.

Generally, shares of the Corporation will be considered to be capital property to a holder thereof provided that the holder does not use such shares in the course of carrying on a business or has not acquired them in one or more transactions considered to be an adventure in the nature of trade. All security holders should consult their own tax advisors as to whether, as a matter of fact, they hold shares of the Corporation as capital property for the purposes of the Canadian Tax Act.

Under the current provisions of the Canadian Tax Act, as modified by the Proposed Amendments (see below), one-half of capital gains ( taxable capital gains ) must be included in computing the income of a holder in the year of disposition. One-half of capital losses ( allowable capital losses ) may generally be deducted against taxable capital gains for the year of disposition subject to and in accordance with the provisions of the Canadian Tax Act.

Allowable capital losses in excess of a holder's taxable capital gains of a taxation year may generally be carried back three years and carried forward indefinitely for deduction against taxable capital gains realized in those years, to the extent and under circumstances permitted under the Canadian Tax Act.

This discussion takes into account specific proposals to amend the Canadian Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Proposed Amendments") and assumes that all such Proposed Amendments will be enacted in their present form. No assurances can be given that the Proposed Amendments will be enacted in the form proposed, if at all; however the Canadian federal income tax considerations generally applicable to security holders described herein will not be different in a material adverse way if the Proposed Amendments are not enacted.

Except for the foregoing, this discussion does not take into account or anticipate any changes in law, whether by legislative, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations described herein.

Generally, shares of the Corporation will not be taxable Canadian property at a particular time provided that such shares are listed on a prescribed stock exchange (which exchanges currently include the Toronto Stock Exchange), the holder does not use or hold, and is not deemed to use or hold, the shares of the Corporation in connection with carrying on a business in Canada and the holder, persons with whom such holder does not deal at arm's length, or the holder and such persons, have not owned (or had under option) 25% or more of the issued shares of any class or series of the capital stock of the Corporation at any time within five years preceding the particular time.

A holder of shares of the Corporation that are not taxable Canadian property will not be subject to tax under the Canadian Tax Act on the sale or other disposition of shares.

**While intended to address all material Canadian Federal Income Tax considerations, this summary is for general information purposes only, and is not intended to be, nor should it be construed to be, legal or tax advice to any holder or prospective holder of common shares. No opinion was requested by the Corporation, or**

**is provided by its legal counsel and/or auditors. Additionally, this summary does not consider the effects of United States federal, state, local or foreign income tax consequences.**

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**Accordingly, holders and prospective holders of common shares should consult their own tax advisors about the consequences of purchasing, owning, and disposing of common shares of the Corporation.**

**F. Dividends and Paying Agents**

Not applicable

**G. Statement by Experts**

Not applicable

**H. Documents on Display**

The documents described herein may be inspected at the head office of Corporation at 4 1200 Waverley Street, Winnipeg, Manitoba, Canada R3T 0P4, during normal business hours.

**I. Subsidiary Information**

Not applicable

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**INTEREST RATE RISK**

The primary objective of the Corporation's investment activities is to preserve principal by maximizing the income the Corporation receives from such activities without significantly increasing risk. Securities that the Corporation invests in are generally highly liquid short-term investments such as term deposits with terms to maturity of less than one year.

Due to the short-term nature of these investments, the Corporation believes there is no material exposure to interest rate risk arising from such investments and accordingly, no quantitative tabular disclosure is required.

As disclosed above, the Corporation entered into a debt agreement in connection with its acquisition of the rights of AGGRASTAT® in the United States and its territories in August 2006. At May 31, 2007, the outstanding principal amount of this debt is US\$15.84 million. As this debt bears interest at a fluctuating rate of LIBOR plus 6.5 percent per annum, the Corporation is exposed to interest rate risk.

**FOREIGN EXCHANGE RISK**

The Corporation's primary currency of operations is the Canadian dollar. However, the Corporation has expenditures and holds investments denominated in a foreign currency. In fiscal 2007, it is estimated that approximately 55% of the Corporation's expenditures were denominated in a foreign currency, primarily being the US dollar. To date the Corporation has not entered into any future or forward contracts, or other derivative instruments, for either hedging or speculative purposes to mitigate the impact of foreign exchange fluctuations on these costs. A 10% change in foreign exchange rates for fiscal 2007 would have impacted loss for the year by 7%.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable

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**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable

**ITEM 15T. CONTROLS AND PROCEDURES*****Disclosure Controls and Procedures***

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's chief executive officer and its chief financial officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Corporation's chief executive officer and its chief financial officer concluded that the Corporation's disclosure controls and procedures as of May 31, 2007 are effective in identifying, on a timely basis, material information relating to the Corporation that is to be publicly disclosed.

***Internal Control over Financial Reporting***

The Corporation's management is responsible for establishing and maintaining adequate internal control over financial reporting as required under applicable Canadian and U.S. securities regulatory requirements.

The Corporation's management carried out an evaluation, under the supervision of the Corporation's chief executive officer and chief financial officer, of the effectiveness of the Corporation's internal control over financial reporting, as of May 31, 2007, based on the framework set forth in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its evaluation under this framework, management concluded that the Corporation's internal control over financial reporting was effective as of that date.

This annual report does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Corporation to provide only management's report in this annual report.

***Changes in Internal Control over Financial Reporting***

There have been no changes in the Corporation's internal controls over financial reporting identified in connection with the evaluation described in the preceding paragraph that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

**ITEM 16. RESERVED**

Not applicable

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

As of May 31, 2007, Mr. Kishore Kapoor, a non-employee director, was a member of the audit committee of the Corporation. The board of directors of the Corporation has determined that Mr. Kapoor (i) qualifies as an audit committee financial expert pursuant to Items 16A(b) and (c) of Form 20-F and (ii) is independent as defined by Rule

121A of the Amex Company Guide and Rule 10A-3 of the Exchange Act. In addition, all members of the audit committee are considered financially literate under applicable Canadian laws.

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**ITEM 16B. CODE OF ETHICS**

On August 23, 2004, the Corporation adopted a written Code of Business Conduct and Ethics ( Code of Ethics ) that applies to the Corporation s principal executive officer, principal financial officer and to all its other employees. These standards are a guide to help ensure that all of the Corporation s employees live up to high ethical standards. A copy of the Code of Ethics is maintained on the Corporation s website at www.medicure.com.

The Corporation intends to disclose any amendment to or waiver from any provision in the Code of Ethics, that has occurred during the past fiscal year and that applies to the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, either in its Exchange Act annual report or on the Corporation s Internet website.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

In accordance with the requirements of the Sarbanes-Oxley Act of 2002 and the Audit Committee s charter, all audit and audit-related work and all non-audit work performed by the chartered accountants, KPMG LLP, is approved in advance by the Audit Committee, including the proposed fees for such work. The Audit Committee is informed of each service actually rendered that was approved through its pre-approval process.

<b>(a) Audit fees</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
\$	55,600	\$ 34,500

Audit fees consist of fees paid for the audit of the Corporation s annual financial statements.

<b>(b) Audit-related fees</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
\$	124,850	\$ 33,600

Audit-related fees consist of fees paid for the review of the Corporation s interim financial statements and for services associated with the issuance of prospectuses.

**(c) Tax fees** - No compensation was paid to KPMG for tax compliance, tax advice and tax planning in fiscal 2007 or 2006.

<b>(d) All other fees</b>	<b><u>2007</u></b>	<b><u>2006</u></b>
\$	3,825	\$ 62,725

All other fees consist of fees paid for translation services and assistance with Sarbanes-Oxley compliance planning.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

The consolidated financial statements were prepared in accordance with Canadian GAAP and are presented in Canadian dollars. There are material measurement differences between United States and Canadian GAAP. A reconciliation of the consolidated financial statements to United States GAAP is set forth in Note 13 of the notes to the consolidated financial statements.

The consolidated financial statements are in the following order:

1. Report of Independent Registered Public Accounting Firm;
  2. Consolidated Balance Sheets;
  3. Consolidated Statements of Operations and Deficit;
  4. Consolidated Statements of Cash Flows; and
  5. Notes to Consolidated Financial Statements.
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Consolidated Financial Statements of

**MEDICURE INC.**

Years ended May 31, 2007, 2006 and 2005

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Directors of Medicare Inc.

We have audited the consolidated balance sheets of Medicare Inc. as at May 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for each of the years in the three year period ended May 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our audit opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at May 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the three year period ended May 31, 2007, in conformity with Canadian generally accepted accounting principles.

Canadian generally accepted accounting principles vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 13 to the consolidated financial statements.

(signed) KPMG LLP

Chartered Accountants

Winnipeg, Canada  
August 22, 2007

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**MEDICURE INC.**

Consolidated Balance Sheets  
(Expressed in Canadian dollars)

May 31, 2007 and 2006

	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 31,770,320	\$ 34,920,433
Accounts receivable (note 3)	2,048,260	458,424
Inventories (note 4)	640,004	
Research advance (note 10)	200,000	200,000
Prepaid expenses	1,168,603	262,716
	35,827,187	35,841,573
Property and equipment (note 5)	196,521	50,663
Intangible assets (note 6)	23,412,131	2,921,841
Deferred debt issue expenses (net of accumulated amortization of \$211,096)	349,963	
	\$ 59,785,802	\$ 38,814,077
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,536,869	\$ 1,644,339
Current portion of long-term debt (note 7)	6,160,896	
	14,697,765	1,644,339
Long-term debt (note 7)	10,781,568	
Shareholders' equity:		
Capital stock (note 8)	109,102,397	81,226,634
Contributed surplus [note 8(c)]	3,035,024	2,070,670
Deficit	(77,830,952)	(46,127,566)
	34,306,469	37,169,738
Nature of operations (note 1)		
Commitments and contingencies (note 10)		
Subsequent events (notes 1 and 7)		
	\$ 59,785,802	\$ 38,814,077

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Signed Dr. A.D. Friesen Director

Signed Mr. Kishore Kapoor Director

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**MEDICURE INC.**

Consolidated Statements of Operations and Deficit  
(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

	2007	2006	2005
<b>Revenue:</b>			
Product sales, net	\$ 5,944,730	\$	\$
<b>Expenses:</b>			
Cost of goods sold, excluding amortization	387,803		
Selling, general and administrative	11,047,769	2,858,443	2,256,499
Research and development (note 10)	23,335,752	10,219,025	13,564,069
Investment tax credits	(171,927)	(478,473)	(553,335)
Amortization	2,288,745	107,379	57,874
	36,888,142	12,706,374	15,325,107
Loss before the undernoted	(30,943,412)	(12,706,374)	(15,325,107)
<b>Other expenses (income):</b>			
Interest and other income	(1,590,801)	(299,737)	(394,784)
Interest expense	1,958,380		
Foreign exchange loss (gain), net	392,395	200,437	(64,413)
	759,974	(99,300)	(459,197)
Loss for the year	(31,703,386)	(12,607,074)	(14,865,910)
Deficit, beginning of year	(46,127,566)	(33,520,492)	(18,654,582)
Deficit, end of year	\$ (77,830,952)	\$ (46,127,566)	\$ (33,520,492)
Basic and diluted loss per share	\$ (0.30)	\$ (0.17)	\$ (0.22)
<b>Weighted average number of common shares used in</b>			
computing basic and diluted loss per share	104,879,404	75,144,764	66,717,715

See accompanying notes to consolidated financial statements.

**MEDICURE INC.**

Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

	2007	2006	2005
<b>Cash provided by (used in):</b>			
<b>Operating activities:</b>			
Loss for the year	\$ (31,703,386)	\$ (12,607,074)	\$ (14,865,910)
Adjustments for:			
Amortization of property and equipment	41,187	32,797	27,995
Amortization of intangible assets	2,247,558	74,582	29,879
Amortization of deferred debt issue expenses	211,096		
Write-off of property and equipment		17,212	
Stock-based compensation	1,025,310	745,570	504,878
Unrealized foreign exchange gain on long-term debt	(825,221)		
Change in the following:			
Accounts receivable	(1,589,836)	11,342	(191,669)
Inventories	(640,004)		
Prepaid expenses	(905,887)	135,488	512,133
Accounts payable and accrued liabilities	6,892,530	(1,088,415)	1,915,179
	(25,246,653)	(12,678,498)	(12,067,515)
<b>Investing activities:</b>			
Acquisition of property and equipment	(187,045)	(19,671)	(42,796)
Acquisition of intangible assets	(22,737,848)	(1,224,223)	(386,157)
	(22,924,893)	(1,243,894)	(428,953)
<b>Financing activities:</b>			
Issuance of common shares, net of share issue costs	27,814,807	41,251,907	133,000
Proceeds from issuance of long-term debt	17,767,685		
Debt issue expenses	(561,059)		
	45,021,433	41,251,907	133,000
Increase (decrease) in cash and cash equivalents	(3,150,113)	27,329,515	(12,363,468)
Cash and cash equivalents, beginning of year	34,920,433	7,590,918	19,954,386
Cash and cash equivalents, end of year	\$ 31,770,320	\$ 34,920,433	\$ 7,590,918
<b>Supplementary information:</b>			
Cash transactions:			

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Interest paid	\$	1,574,209	\$		\$
Interest received		1,596,616		207,718	530,876
Non-cash transactions:					
Value assigned to stock options granted					
as consideration for acquisition of					
intellectual property from third party					
(note 6)	\$		\$	439,230	\$
Value assigned to placement agent's					
stock-based compensation related to					
August 19, 2005 private placement					
[note 8(c)]				42,758	

See accompanying notes to consolidated financial statements.

## MEDICURE INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)  
Years ended May 31, 2007, 2006 and 2005

### 1. Nature of operations:

Medicure Inc. (the Company) is a biopharmaceutical company focused on the discovery and development of therapeutics for various large-market, unmet cardiovascular needs. In fiscal 2007, the Company acquired the U.S. rights to its first commercial product, AGGRASTAT® Injection (tirofiban hydrochloride) in the United States and its territories (Puerto Rico, U.S. Virgin Islands, and Guam). AGGRASTAT®, a glycoprotein GP IIb/IIIa receptor antagonist, is used for the treatment of acute coronary syndrome (ACS) including unstable angina, which is characterized by chest pain when one is at rest, and non-Q-wave myocardial infarction.

Prior to the acquisition of AGGRASTAT®, the Company had no products in commercial production or use. As such, the Company was considered to be a development-stage enterprise for accounting purposes prior to the acquisition.

The Company's research and development program is currently focused on the clinical development of the Company's lead clinical products, MC-1 and MC-4232, and the discovery and development of other drug candidates.

Since September 15, 1997, the date of inception of the Company through to May 31, 2007, the Company has expended approximately \$59,743,000 net of government assistance and investment tax credits, which aggregate approximately \$1,654,000, on the research and development of MC-1, MC-4232 and other compounds.

To date, the Company has financed its cash requirements primarily through share issuances, debt financing, investment tax credits, government grants and interest income. As the Company is continuing to further its pharmaceutical research of novel compounds, future losses are anticipated and additional financing will be required. The eventual profitability of the Company is dependent on many factors, including, but not limited to, successful development and market acceptance of its products, receiving the required regulatory approvals, the conclusion and implementation of applicable strategic and other alliances and adequate financing on a timely basis. There can be no assurance that required regulatory approvals will be received or, if received, will be received on a timely basis. In addition, pharmaceutical industries are subject to rapid and substantial technological change, which could reduce the marketability of the Company's products or technology, and which requires ongoing issuance and maintenance of patents as well as continued investment in research and development. It is not possible to predict the outcome of the Company's future research and development activities or the financing thereof.

In response to these factors and to support continued operations through the 2008 fiscal year, The Company has entered into the following arrangements subsequent to May 31, 2007 which it anticipates closing in September 2007:

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## MEDICURE INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

### 1. Nature of operations (continued):

On August 20, 2007, the Company entered into a securities purchase agreement with an unrelated investor to raise gross proceeds of US\$15 million. Under the terms of the agreement, the Company intends to issue approximately 13.04 million common shares together with warrants to purchase approximately 3.9 million additional common shares (the common shares and warrants comprise the Units), at a price of US\$1.15 per Unit. The warrants have a five year term and will have an exercise price of US\$1.50 each. The agreement is expected to close in September 2007, and is subject to standard closing conditions including regulatory approval. In a separate transaction, the Company has signed a non-binding term sheet dated August 20, 2007 to monetize a percentage of the Company's current and potential future commercial revenues with Manchester Securities Corp., an affiliate of Elliott Associates, L.P. (Elliott) for a US\$25 million up-front cash payment. Under the proposed terms, Elliott will receive an annual return that will be calculated as a percentage of AGGRASTAT® net sales subject to an escalating minimum annual return, until 2019. The minimum annual returns start at US\$2.5 million in 2007 and escalate to US\$6.9 million in 2016. Elliott will also receive the option to convert its rights based on AGGRASTAT® to MC-1 within six months after MC-1's commercialization, if achieved. The exact percentage of AGGRASTAT® or MC-1 revenue that Elliott will receive is tiered and declines as certain revenue levels are achieved. Upon conversion to MC-1, Elliott is entitled to a blended return of approximately 7 percent on the first US\$75 million in MC-1 revenues and 3 percent thereafter. Elliott's participation rights shall be secured by a first security interest in the intellectual property rights of the Company in AGGRASTAT® and MC-1 (subject to certain specified MC-1 lien release terms), the proceeds derived from the commercialization of AGGRASTAT® and MC-1 (including without limitation any royalties receivable derived from any licensing of AGGRASTAT® and MC-1 to any third party and accounts receivable from the sale of AGGRASTAT® and MC products), and all intellectual, proprietary and other rights (including without limitation contractual promotion and licensing rights and benefits) associated with, or derived from, AGGRASTAT® and MC-1. The Company will also issue Elliott ten-year warrants to purchase 1 million common shares at an exercise price of US\$1.26.

The Elliott agreement is subject to a number of closing conditions, including the amendment, described below, of the Company's credit agreement dated August 8, 2006 and the execution of a definitive agreement. The transaction is expected to close in September 2007.

In conjunction with the financing transactions described above, the Company has agreed to an amendment with its existing lenders (note 7) to certain of the covenants provided for in its credit agreement, dated August 8, 2006. The lenders and the Company have agreed, subject to certain conditions:

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## MEDICURE INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

### 1. Nature of operations (continued):

- (i) From and after August 17, 2007, but no later than April 30, 2008, the Company shall receive additional cash for working capital in a total aggregate amount of at least US\$35 million from any and/or a combination of any of the sources described above, provided that (1) at least US\$15 million of such aggregate amount must be received by the Company no later than September 30, 2007 and (2) a further US\$15 million of such aggregate amount must be received by the Company no later than February 28, 2008 and (3) a further US\$5 million of such aggregate amount must be received by the Company no later than April 30, 2008. The Company intends that the additional cash to meet this test will come from the subscription agreement and term sheet described above.
- (ii) To amend the credit agreement such that the Company is required to achieve the following minimum net revenue requirements from sales of AGGRASTAT®:
  - Calendar 2007 - nil
  - Calendar 2008 - US\$15 million
  - Calendar 2009 - US\$23 million
- (iii) The Company will deposit US\$10 million in a cash collateral account to be held by Merrill Lynch Capital Inc. (Merrill), for the benefit of Merrill and the lenders, on closing of the financing transactions described above.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on many factors, including, but not limited to, the actual closing of the above financings, including the completion of the appropriate amendment to its existing financing agreement, under the terms described above and meeting any applicable financial covenants on an ongoing basis. These consolidated financial statements do not reflect any adjustments that may be required if these transactions are not completed as indicated.

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## **MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

### **2. Significant accounting policies:**

(a) Basis of presentation:

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). The measurement principles applied are also in conformity, in all material respects, with accounting principles generally accepted in the United States of America (U.S. GAAP) except as described in note 13 to the consolidated financial statements.

These financial statements have been prepared on a consolidated basis to include the accounts of the Company and its wholly-owned subsidiaries, Medicare International Inc., Medicare Pharma Inc., and Medicare Europe Limited. All significant inter-Company transactions and balances have been eliminated.

(b) Revenue recognition:

The Company recognizes product revenue when substantially all of the risks and rewards of ownership have transferred to the customer and collection is reasonably assured. Depending on specific sales terms, revenue is recognized upon product delivery, upon customer acceptance, and when no significant contractual obligations remain. Net sales reflect reduction of gross sales at the time of initial sales recognition for estimated wholesaler chargebacks, discounts, allowances for product returns, and other rebates. Interest income is recognized as earned.

(c) Inventories:

Inventories of raw materials and packaging materials are valued at the lower of cost and replacement cost. Inventories of finished goods are valued at the lower of cost and net realizable value. Cost is determined under the first-in, first-out method.

(d) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and balances with banks as well as highly liquid short-term investments. The Company considers all highly liquid short-term investments with terms to maturity when acquired of three months or less to be cash equivalents.

**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**2. Significant accounting policies (continued):**

## (e) Property and equipment:

Property and equipment are stated at cost. Amortization is recorded over the estimated useful life of the assets at the following rates:

Asset	Basis	Annual Rate
Computer equipment	Straight-line	25%
Furniture, fixtures and equipment	Diminishing balance	20%
Leasehold improvements	Straight-line	20%

## (f) Intangible assets:

Costs incurred in obtaining patents are capitalized and amortized upon issuance on a straight-line basis over the remaining legal life of the respective patents, being approximately twenty years, or their economic life, if shorter. The cost of servicing the Company's patents is expensed as incurred.

Intangible assets are recorded at acquisition cost and are amortized on a straight-line basis based on the following estimated useful lives:

Patents	5 - 20 years
Trademark	10 years
Technology license	8 years
Customer list	10 years

## (g) Deferred debt issue expenses:

Deferred debt issue expenses are reported at cost less accumulated amortization. Amortization is calculated using the straight-line method over the term of the debt. Amortization expense related to deferred debt issue expenses is included in interest expense.



**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**2. Significant accounting policies (continued):**

## (h) Impairment of long-lived assets:

On a regular basis, management reviews the valuation of long-lived assets, which includes property and equipment and intangible assets, taking into consideration any events and circumstances which may impact recoverable value. Section 3063 of the CICA Handbook, *Impairment of Long-Lived Assets*, prescribes rigorous principles for the recognition, measurement and disclosure of any impairment of long-lived assets. Management has reviewed the carrying value of the long-lived assets using this guidance and determined no impairment currently exists.

## (i) Stock-based compensation:

The Company has a stock option plan [note 8(d)] for its directors, management, employees and consultants. The Company uses the fair value method of accounting for stock options granted. The fair value of the options is expensed over their vesting period.

## (j) Government assistance and investment tax credits:

Government assistance toward current expenses is recorded as a reduction of the related expenses in the period the expenses are incurred. Government assistance towards property and equipment is deducted from the cost of the related property and equipment. The benefits of investment tax credits for scientific research and development expenditures (SR&ED) are recognized in the period the qualifying expenditure is made, providing there is reasonable assurance of recoverability. SR&ED investment tax credits receivable are recorded at their net realizable value.

Investment tax credits are only available on research and development expenditures incurred directly by the Company.

## (k) Research and development:

All costs of research activities are expensed in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless a development project meets stringent criteria for cost deferral and amortization. No development costs have been deferred to date. Tangible and intangible assets acquired for use in research and development projects are accounted for as described in note 2(e) and (f).

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**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**2. Significant accounting policies (continued):**

## (l) Clinical trial expenses:

Clinical trial expenses are a component of the Company's research and development costs. These expenses include fees paid to contract research organizations, clinical sites, and other organizations who conduct development activities on the Company's behalf. The amount of clinical trial expenses recognized in a period related to clinical agreements are based on estimates of the work performed using an accrual basis of accounting. These estimates incorporate factors such as patient enrollment, services provided, contractual terms, and prior experience with similar contracts.

## (m) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. When realization of future income tax assets does not meet the more likely than not criterion, a valuation allowance is provided for the difference.

## (n) Net earnings (loss) per share:

Basic earnings (loss) per share is computed using the weighted average number of shares outstanding during the year including contingently issuable shares where the contingency has been resolved. The diluted per share amounts are calculated based on the weighted average number of common shares outstanding during the period, plus the effect of dilutive common share equivalents such as options and warrants. This method requires that diluted per share amounts be calculated using the treasury stock method, as if all the common share equivalents, where the average market price for the period exceeds the exercise price had been exercised at the beginning of the reporting period, or at the date of issue, if later, as the case may be, and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of the common shares during the period. For all periods presented, all potential common shares have been excluded from the calculation of dilutive loss per share as their effect is anti-dilutive.

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**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**2. Significant accounting policies (continued):**

## (o) Foreign currency translation:

Current assets and current liabilities in foreign currencies have been translated into Canadian dollars at the rates of exchange in effect at the balance sheet date. Income and expense transactions are translated at actual rates of exchange during the year. Exchange gains and losses are included in loss for the period.

The operations of the Company's foreign subsidiaries are considered to be integrated foreign operations and, accordingly, are converted to Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date, non-monetary assets and liabilities are translated at the rate in effect when the assets were acquired or liabilities were assumed and items included in the statements of operations at the average exchange rates in effect at the date of such transactions with resulting exchange gains or losses included in the determination of earnings.

## (p) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

**3. Accounts receivable:**

	2007	2006
Trade accounts receivable	\$ 1,164,386	\$
SR&ED taxes receivable	408,927	237,000
Interest receivable	184,121	189,936
Other	290,826	31,488
	\$ 2,048,260	\$ 458,424

The Company believes that there is no unusual exposure associated with the collection of these accounts receivable. As at May 31, 2007, the trade accounts receivable primarily consists of amounts owing from four customers which represent approximately 98 percent (May 31, 2006 - nil) of trade accounts receivable.

**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**4. Inventories:**

	2007		2006	
Raw materials and packaging materials	\$	366,796	\$	
Finished goods		273,208		
	\$	640,004	\$	

**5. Property and equipment:**

May 31, 2007	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 138,586	\$ 102,396	\$ 36,190
Furniture, fixtures and equipment	183,287	25,116	158,171
Leasehold improvements	20,671	18,511	2,160
	\$ 342,544	\$ 146,023	\$ 196,521

May 31, 2006	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 91,629	\$ 76,156	\$ 15,473
Furniture, fixtures and equipment	43,199	14,303	28,896
Leasehold improvements	20,671	14,377	6,294
	\$ 155,499	\$ 104,836	\$ 50,663

**6. Intangible assets:**

May 31, 2007	Cost	Accumulated amortization	Net book value
Patents	\$ 20,244,953	\$ 1,915,341	\$ 18,329,612
Trademark	3,760,874	284,565	3,476,309
Technology license	1,166,619	173,876	992,743
Customer list	663,684	50,217	613,467
	\$ 25,836,130	\$ 2,423,999	\$ 23,412,131

**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**6. Intangible assets (continued):**

May 31, 2006	Cost	Accumulated amortization	Net book value
Patents	\$ 1,935,502	\$ 146,971	\$ 1,788,531
Technology license	1,162,780	29,470	1,133,310
	\$ 3,098,282	\$ 176,441	\$ 2,921,841

In August 2006, the Company acquired the rights to AGGRASTAT® Injection (tirofiban hydrochloride) in the U.S. and its territories (Puerto Rico, Virgin Islands, and Guam) from MGI PHARMA Inc. for total cash consideration of US\$19,000,000, and is required to make certain royalty payments to Merck & Co., Inc., based on net sales of AGGRASTAT® in the U.S. The purchase price has been allocated to patents, trademark, and customer list intangible assets acquired, which are amortized over their estimated useful lives.

During the year ended May 31, 2006, the Company acquired several U.S. and European patents from a third party for purinoceptor antagonists and adenosine receptor antagonists for the treatment of ischemic reperfusion injury pursuant to a sub-licensing agreement. Terms of the agreement included a cash fee of US\$500,000, stock options having an estimated fair value at the date of grant of \$439,230 and a royalty on future sales of products claimed in the licensed patents.

**7. Long-term debt:**

In connection with the Company's acquisition of the licensing rights to AGGRASTAT® in the United States and its territories, the Company obtained a term loan facility totaling US\$15,840,000 from Merrill Lynch Capital Canada Inc, a division of Merrill Lynch Business Financial Services Inc., Silicon Valley Bank and Oxford Finance Corporation. Interest is payable monthly at one-month LIBOR plus 6.5 percent per annum. Commencing in June 2007, principal of US\$480,000 is payable monthly with the term loan maturing February 1, 2010.

Principal repayments to maturity are as follows:

2008	\$ 6,160,896
2009	6,160,896
2010	4,620,672
	\$ 16,942,464

**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**7. Long-term debt (continued):**

The term loan facility is secured by collateral, consisting of all financial, physical, and intangible assets of the Company and its subsidiaries. The term loan facility agreement includes certain financial and non-financial covenants. As described in note 1, the Company has entered into an agreement with the lenders that, subject to the completion of certain financing arrangements and other closing conditions, will modify financial covenants of this debt.

**8. Capital stock:**

## (a) Authorized:

The Company has authorized share capital of an unlimited number of common voting shares, an unlimited number of class A common shares and an unlimited number of preferred shares. The preferred shares may be issued in one or more series, and the directors may fix prior to each series issued, the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares.

## (b) Shares issued and outstanding are as follows:

	Number of shares	Amount
<i>Common shares:</i>		
Balance, May 31, 2004	66,646,660	\$ 39,731,296
Exercise of options for cash	180,000	133,000
Balance, May 31, 2005	66,826,660	39,864,296
Private placement for cash on August 19, 2005 net of share issue costs of \$545,544	5,205,500	4,139,406
Public offering for cash on January 4, 2006 net of share issue costs of \$1,154,850	7,750,000	10,857,650
Private placement for cash on May 9, 2006 net of share issue costs of \$2,373,792	16,000,000	25,959,800
Exercise of options for cash	264,305	405,482
Balance, May 31, 2006	96,046,465	81,226,634
Private placement for cash on December 22, 2006, net of share issue costs of \$1,866,177	15,615,392	21,541,766
Private placement for cash on December 28, 2006, net of share issue costs of \$499,879	4,307,652	5,986,541
Exercise of options for cash	345,000	347,456

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Balance, May 31, 2007

116,314,509 \$ 109,102,397

Share issue costs include a non-cash charge of \$42,758 related to placement agent's warrants granted as compensation for the August 19, 2005 private placement.

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**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**8. Capital stock (continued):**

(c) Contributed surplus:

Balance, May 31, 2004	\$	491,423
Options granted		504,878
Balance, May 31, 2005		996,301
Stock-based compensation		1,184,800
Placement agent s warrants granted		42,758
Options exercised - transferred to capital stock		(153,189)
Balance, May 31, 2006		2,070,670
Stock-based compensation		1,025,310
Options exercised - transferred to capital stock		(60,956)
Balance, May 31, 2007	\$	3,035,024

(d) Options:

The Company has a stock option plan which is administered by the Board of Directors of the Company with stock options granted to directors, management, employees and consultants as a form of compensation. The number of common shares reserved for issuance of stock options is limited to a maximum of 7,200,000 common shares of the Company at any time. The stock options generally are subject to vesting over a period up to three years and have a maximum term of ten years.

A summary of the Company s stock options is as follows:

	2007		2006		2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Balance, beginning of year	3,300,028	\$ 1.41	2,372,333	\$ 1.17	2,307,033	\$ 1.11
Granted	1,355,500	1.65	1,308,000	1.76	1,075,000	1.18
Exercised	(345,000)	0.83	(264,305)	0.96	(180,000)	0.74
Cancelled or expired	(75,000)	1.37	(116,000)	1.32	(829,700)	1.10
Balance, end of year	4,235,528	\$ 1.52	3,300,028	\$ 1.41	2,372,333	\$ 1.17



Options exercisable,			
end of	2,318,028	1,709,685	977,334
year			

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**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**8. Capital stock (continued):**

	2007	2006	2005
Weighted average fair value per unit of options granted during the year at market value on grant date	\$ 1.07	\$ 1.27	\$ 0.49
Weighted average fair value per unit of options granted during the year at above market value on grant date		0.34	0.41

Options outstanding at May 31, 2007 consist of the following:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Options outstanding weighted average exercise price	Number exercisable
\$ 0.75 - 1.95	3,985,528	6.1 years	\$ 1.46	2,068,028
2.14 - 2.67	250,000	3.1 years	2.46	250,000
	4,235,528		\$ 1.52	2,318,028

The compensation expense related to stock options granted under the stock option plan during fiscal 2007 aggregated \$1,025,310 (2006 - \$745,570; 2005 - \$504,878). The compensation expense was determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006	2005
Expected option life	6.5 years	7.0 years	4.0 years
Risk-free interest rate	4.10%	4.05%	3.61%
Dividend yield			
Expected volatility	66.96%	72.70%	70.57%

The cost of stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. For awards that vest at the end of the vesting period, compensation cost is recognized on a straight-line basis over the vesting period. For awards that vest on a graded basis, compensation cost is recognized on a pro rata basis over the vesting period from the date of issuance.

**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**8. Capital stock (continued):**

## (e) Warrants:

Issuance (Expiry date)	Original granted	Value per share	May 31, 2005	Granted (Exercised) (Cancelled)*	May 31, 2006	Granted (Exercised) (Cancelled)*	May 31, 2007
629,834 units (June 26, 2005)	629,834	\$ 1.00	502,403	(502,403)*			
104,110 units (August 19, 2008)	104,110	1.18		104,110	104,110		104,110
2,602,750 units (August 19, 2010)	2,602,750	1.18		2,602,750	2,602,750		2,602,750
4,000,000 units (May 9, 2011)	4,000,000	US 2.10		4,000,000	4,000,000		4,000,000
3,984,608 units (December 22, 2011)	3,984,608	US 1.70				3,984,608	3,984,608

The warrants were all issued together with common shares either under prospectus offerings or private placements with the fair value of the consideration received under the offerings allocated to the common shares issued.

The warrants expiring on May 9, 2011 and December 22, 2011 may be exercised, upon certain conditions being met, on a cashless basis based on a formula described in the warrant agreements.

## (f) Shareholder rights plan:

The Company has a shareholder rights plan, the primary objective of which is to ensure, to the extent possible, that all shareholders of the Company are treated fairly in connection with any takeover offer for the Company and to ensure that the Board of Directors is provided with sufficient time to evaluate unsolicited takeover bids and to explore and develop alternatives to maximize shareholder value.

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**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**9. Income taxes:**

Significant components of the Company's future tax assets and liabilities are as follows:

	2007	2006
Future tax assets:		
Research and development expenses deductible in future periods for income tax purposes	\$ 3,373,000	\$ 1,486,000
Share issue costs	1,440,000	1,215,000
Operating losses carried forward	2,419,000	2,818,000
Other	222,000	91,000
	7,454,000	5,610,000
Less valuation allowance	(7,454,000)	(5,610,000)
	\$	\$

The reconciliation of the Canadian statutory rate to the income tax provision is as follows:

	2007	2006	2005
Loss for the year:			
Canadian	\$ 4,575,446	\$ 2,951,941	\$ 1,796,998
Foreign	27,127,940	9,655,133	13,068,912
	\$ 31,703,386	\$ 12,607,074	\$ 14,865,910
Canadian federal and provincial income taxes recovery at 32.5% (2006 - 35%; 2005 - 37.1%)			
	\$ 10,304,000	\$ 4,412,000	\$ 5,518,000
Foreign tax rate differential	(7,947,000)	(3,138,000)	(4,524,000)
Permanent differences	(333,000)	(265,000)	(196,000)
Change in statutory rates	(374,000)	(46,000)	(68,000)
Valuation allowance	(1,650,000)	(1,157,000)	(730,000)
Other	194,000		
	\$	\$	\$

The foreign tax rate differential is the difference between the Canadian federal and provincial statutory income tax rate and the tax rates in Barbados (2.5 percent) and the United States (34 percent) that are applicable to losses incurred by its wholly-owned subsidiaries, Medicure International Inc. and Medicure Pharma Inc.

At May 31, 2007, the Company has Canadian and Foreign unutilized operating losses carried forward for income tax purposes of \$2,499,802 and \$62,973,128, respectively. These losses are available to be applied against taxable income of future years up to fiscal 2027. The Company also has scientific and development investment tax credits of

\$2,618,000 (2006 - \$991,000) which can be applied against income taxes otherwise payable of future years up to fiscal 2027.

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**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**10. Commitments and contingencies:**

## (a) Commitments:

As at May 31, 2007 and in the normal course of business we have obligations to make future payments, representing contracts and other commitments that are known and committed.

	Purchase agreement commitments	Services agreement commitments
Contractual obligations payment due by fiscal period ending May 31:		
2008	\$ 1,089,922	\$ 804,692
2009	1,089,922	
2010	1,250,363	
	\$ 3,430,207	\$ 804,692

In conjunction with the acquisition of AGGRASTAT®, the Company entered into manufacturing and supply agreements to purchase a minimum quantity of AGGRASTAT® from a third party totaling a minimum of \$3,430,207 over the term of the agreement, which expires in fiscal 2010.

The Company entered into an agreement with a third party to provide contract sales and marketing services, totaling a minimum of \$804,692 over the term of the agreement, which expires in fiscal 2008.

In addition to the contractual obligations disclosed above, the Company and its wholly-owned subsidiaries have ongoing research and development agreements with third parties in the ordinary course of business. The agreements include the research and development of MC-1 and its related compounds.

The contracts with the clinical research organizations (CROs) are payable over the terms of the trials and timing of payments is largely dependent on various milestones being met, such as the number of patients recruited, number of monitoring visits conducted, the completion of certain data management activities, trial completion, and other trial-related activities. As at May 31, 2007, the Company is committed to fund up to a further \$3,857,000 related to clinical research agreements with CROs.

**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**10. Commitments and contingencies (continued):**

The Company also entered into agreements with the clinical sites participating in the trials. The site agreements require payments over the course of the study based on various activities being completed by the site, such as patient visits and various testing and measurement activities required per the study protocol. The Company is also liable for the payment of certain pass through costs. A significant portion of the amounts due to the sites for these activities is not payable until after the completion of these activities. As at May 31, 2007, the Company is committed to fund up to an estimated \$13,107,000 related to site agreements. The CRO and site agreements are cancellable upon termination notice of 30, 60 or 90 days, depending upon the terms of the agreement.

In addition, as at May 31, 2007, the Company has committed to fund a further \$30,699,000 in research and development activities under two development agreements with contract research organizations. The timing of expenditures and payments is largely at the discretion of the Company and the agreements may be terminated at any time provided 30 days notice is provided.

As at May 31, 2007, the Company has provided a research advance of \$200,000 (2006 - \$200,000) to one of the third parties referred to above, which is non-interest bearing, unsecured and repayable on demand.

**(b) Guarantees:**

The Company periodically enters into research agreements with third parties that include indemnification provisions customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of claims arising from research and development activities undertaken on behalf of the Company. In some cases, the maximum potential amount of future payments that could be required under these indemnification provisions could be unlimited. These indemnification provisions generally survive termination of the underlying agreement. The nature of the indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the accompanying financial statements with respect to these indemnification obligations.

**(c) Royalties:**

The Company has granted royalties to third parties based on future commercial sales of MC-1, aggregating up to 3.9 percent on net sales. To date, no royalties are due and/or payable.

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## **MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

### **10. Commitments and contingencies (continued):**

Royalties are payable to Merck & Co., Inc., based on net sales of AGGRASTAT® in the United States and its territories beginning in January 2007 and continuing until the expiration of the last to expire of the assigned patents, which is May 6, 2023. The calculation of royalties due is based on a sliding scale dependant on reaching certain net sales milestones and ranges between 5 and 20 percent of net sales as defined in the license agreement. Royalties due under the license agreement are included in cost of goods sold in the period in which the related sale is recognized.

### **11. Related party transactions:**

During the year ended May 31, 2007, the Company paid companies controlled by a director a total of \$358,345 (2006 - \$267,569; 2005 - \$243,548) for office rent, supplies, property and equipment and consulting fees.

These transactions are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

### **12. Financial instruments:**

The Company is exposed to market risks related to changes in interest rates and foreign exchange rates. The fair values of cash and cash equivalents, accounts receivable, research advance and accounts payable and accrued liabilities approximate their carrying values due to their short term to maturity. The fair value of the long-term debt approximates its carrying value as it has a variable interest rate and the borrowing arrangement is comparable to current market terms and conditions for similar debt. The Company has entered into no futures or forward contracts as at May 31, 2007.

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## MEDICURE INC.

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

### 13. Reconciliation of generally accepted accounting principles:

The Company prepares its consolidated financial statements in accordance with Canadian GAAP, the measurement principles of which, as applied in these consolidated financial statements, conform in all material respects to U.S. GAAP, except as follows:

(a) Intangible assets:

Under Canadian GAAP, the patent costs and acquired technologies which relate to products which are subject to research and development activities and have not yet received regulatory approval are included as an asset on the balance sheet. Under U.S. GAAP, amounts paid for intangible assets used solely in research and development activities with no alternative future use should be expensed as incurred. As a result of this difference in treatment, under U.S. GAAP, certain patent costs and acquired technologies would have been recorded as a component of research and development expense in the year of incurrence. The effect of this difference is that for the years ended May 31, 2007, 2006 and 2005, research and development expense would have increased by \$618,330, \$1,663,453 and \$386,157, respectively. Under U.S. GAAP, the amortization expense to be added back is \$206,899 for the year ended May 31, 2007 (2006 - \$74,582; 2005 - \$29,878).

(b) Scientific equipment:

Scientific equipment acquired solely for research and development activities has been capitalized and amortized over its useful life for Canadian GAAP purposes. Under U.S. GAAP, the cost of this equipment would be charged to research and development expense as incurred as it does not have alternative future use. There were no additions to scientific equipment during the years ended May 31, 2007, 2006 and 2005. A total of nil (2006 - \$17,212; 2005 - nil) in scientific equipment was written-off during the year under Canadian GAAP that was expensed in a prior year under US GAAP. Amortization of the scientific equipment for Canadian GAAP would be added back to the loss for the period for U.S. GAAP reconciliation purposes. The amortization to be added back for the years ended May 31, 2007, 2006 and 2005 is nil, \$2,933 and \$4,587, respectively.

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**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**13. Reconciliation of generally accepted accounting principles (continued):**

## (c) Stock options - stock-based compensation costs:

For reconciliation purposes to U.S. GAAP, the Company has elected to follow the fair value method in accounting for its employee, management and director stock options since inception of the Company. Under U.S. GAAP, stock-based compensation to non-employees must be recorded at fair value of the options granted. For stock-based compensation granted to non-employees subsequent to June 1, 2002 and to employees, directors and management subsequent to June 1, 2003, the accounting is consistent under both Canadian GAAP and U.S. GAAP.

The Company uses the Black-Scholes option pricing model to determine the fair value of all options granted. This compensation expense would be amortized over the appropriate vesting periods. For purposes of reconciliation to U.S. GAAP, the Company would record an additional compensation expense for the years ended May 31, 2007, 2006 and 2005 of approximately nil, nil and \$8,392, respectively.

## (d) Recent accounting pronouncements:

In December 2004, the FASB revised SFAS No. 123 to require companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees, but expressed no preference for a type of valuation model (SFAS 123R). The way an award is classified will affect the measurement of compensation cost. Liability-classified awards are remeasured to fair value at each balance sheet date until the award is settled. Equity-classified awards are measured at grant-date fair value and the grant-date fair value is recognized over the requisite service period. Such awards are not subsequently remeasured. SFAS 123R requires forfeitures be estimated at the time of grant.

Effective June 1, 2006, the Company adopted SFAS 123R, however, there was no significant impact on its consolidated financial position and results of operations.

In June 2006, the FASB approved FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* - an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the criteria for recognizing tax benefits under FASB Statement No. 109, *Accounting for Income Taxes*. It also requires additional financial statement disclosures about uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the impact of this standard on its consolidated financial position and results of operations.

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**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**13. Reconciliation of generally accepted accounting principles (continued):**

In September 2006, the FASB approved SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in GAAP and enhances disclosures about fair value measurements. This statement applies when other accounting pronouncements require fair value measurements. It does not require new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The Company is evaluating the impact of this standard on its consolidated financial position and results of operations.

The FASB has proposed to adopt new standards which would, for the Company, result in the reclassification of warrants denominated in other than Canadian dollars as a liability and requiring them to be marked-to-market on an ongoing basis with changes in value during a period included in the measurement of loss. The timing of application of this proposed guidance is currently uncertain.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). Under the provisions of SFAS 159, companies may choose to account for eligible financial instruments, warranties and insurance contracts at fair value on a contract-by-contract basis. Changes in fair value will be recognized in earnings each reporting period. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is required to adopt the provision of SFAS 159 effective June 1, 2008. The Company is currently assessing the impact of the adoption of SFAS 159.

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**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**13. Reconciliation of generally accepted accounting principles (continued):**

(e) Summary:

The impact of the measurement differences to U.S. GAAP on the consolidated statements of operations and deficit are as follows:

	Year ended May 31, 2007	Year ended May 31, 2006	Year ended May 31, 2005
Loss for the period, Canadian GAAP	\$ (31,703,386)	\$ (12,607,074)	\$ (14,865,910)
Adjustments for the following:			
Stock-based compensation (c)			(8,392)
Intangible assets (a)	(618,330)	(1,663,453)	(386,157)
Amortization of intangible assets (a)	206,899	74,582	29,878
Scientific equipment (b)		17,212	
Amortization of scientific equipment (b)		2,933	4,587
Loss for the period, U.S. GAAP	\$ (32,114,817)	\$ (14,175,800)	\$ (15,225,994)
Basic and diluted loss per share, U.S. GAAP	\$ (0.31)	\$ (0.19)	\$ (0.23)
Weighted average number of common shares	104,879,404	75,144,764	66,717,715

The impact of the measurement differences to U.S. GAAP on the consolidated statements of cash flows are as follows:

	Year ended May 31, 2007	Year ended May 31, 2006	Year ended May 31, 2005
Operating activities	\$ (25,864,983)	\$ (13,902,721)	\$ (12,453,672)
Investing activities	(22,306,563)	(19,671)	(42,796)
Financing activities	45,021,433	41,251,907	133,000

The impact of the measurement differences to U.S. GAAP described above would result in the consolidated balance sheet items as follows:

	2007	2006
Intangible assets	\$ 20,078,862	\$
Capital stock and contributed surplus	128,382,255	99,542,138
Deficit	(97,409,055)	(65,294,238)



**MEDICURE INC.**

Notes to Consolidated Financial Statements (continued)

(Expressed in Canadian dollars)

Years ended May 31, 2007, 2006 and 2005

**14. Segmented information:**

The Company considers that it operates in one business segment, the biopharmaceutical industry. Substantially all of the Company's assets and operations are located in Canada, the United States and Barbados. During the year ended May 31, 2007, 100 percent of product revenues were generated from sales of AGGRASTAT® in the United States, which was to seven customers. Customer A accounted for 34 percent, Customer B accounted for 32 percent, Customer C accounted for 26 percent, and the remaining four customers accounted for 8 percent.

Property and equipment and intangible assets are located in the following countries:

	2007	2006
Canada	\$ 251,543	\$ 179,164
Barbados	23,233,236	2,793,340
United States	123,873	

**15. Comparative figures:**

The comparative financial statements have been reclassified from statements previously presented to conform to the basis of presentation adopted in the current year's financial statements.

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**Other Schedules**

Information required pursuant to Schedule 21.12 -04 of Regulation S-X has been disclosed on page 6. **See Item 3A Selected Financial Information.**

Information required pursuant to Schedule 21.12 -09 of Regulation S-X is not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 19. EXHIBITS****Number Exhibit**

1. *Articles of Incorporation and Bylaws:*
- 1.1 Medicure s Articles of Incorporation dated September 15, 1997 [1];
- 1.2 Lariat s Articles of Incorporation dated June 3, 1997 [1];
- 1.3 Medicure s Certificate of Continuance from Manitoba to Alberta dated December 3, 1999 [1];
- 1.4 Certificate of Amalgamation for Medicure and Lariat dated December 22, 1999 [1];
- 1.5 Medicure s Certificate of Continuance from Alberta to Canada dated February 23, 2000 [1];
- 1.6 Amended Certificate of Continuance and Articles of Continuance dated February 20, 2003 [3].
- 1.7 Bylaws [5].
4. *Material Contracts and Agreements:*
- 4.1 License Agreement between Medicure and the University of Manitoba dated August 30, 1999, wherein the University of Manitoba granted to Medicure an exclusive license with regard to certain intellectual property (the U of M Licensing Agreement ) [1];
- 4.2 Transfer Agency Agreement between Montreal Trust Company of Canada and the Corporation dated as of January 26, 2000, whereby Montreal Trust Company of Canada agreed to act as transfer agent and registrar with respect to the Shares [1];
- 4.3 Medicure International Licensing Agreement between the Corporation and Medicure International Inc. dated June 1, 2000, wherein the Corporation granted Medicure International Inc a license with regard to certain intellectual property [1];
- 4.4 Development Agreement between Medicure International Inc. and CanAm Bioresearch Inc. dated June 1, 2000, wherein CanAm Bioresearch Inc. agreed to conduct research and development activities for Medicure International [1];
- 4.5 Amendment to the Consulting Services Agreement dated February 1, 2002 between A.D. Friesen Enterprises Ltd. and the Corporation whereby consulting services will be provided to the Corporation by Dr. Albert D. Friesen [2];
- 4.6 Stock Option Plan approved February 4, 2002 [3];
- 4.7 Employment Agreement with Derek G. Reimer dated February 4, 2002 [3];
- 4.8 Employment Agreement with Moray Merchant dated September 22, 2003 [3];



- 4.9 Amendment dated March 1, 2002 to the Development Agreement between Medicure International Inc. and CanAm Bioresearch Inc [5];
- 4.10 Amendment dated August 7, 2003 to the Development Agreement between Medicure International Inc. and CanAm Bioresearch Inc [3];
- 4.11 Amendment to the Consulting Services Agreement dated October 1, 2003 between A.D. Friesen Enterprises Ltd. and the Corporation whereby consulting services will be provided to the Corporation by Dr. Albert D. Friesen [4];
- 4.12 Employment Agreement with Dawson Reimer dated October 1, 2001 [4];
- 4.13 Development Agreement between Medicure International Inc. and Clinical Development Research Institute Inc. (CDRI) dated July 2, 2004, wherein CDRI agreed to conduct research and development activities for Medicure International [4];
- 4.14 Amendment to Employment Agreement dated April 5, 2005 between A.D. Friesen Enterprises Ltd. and the Corporation [5];
- 4.15 Amendment to Employment Agreement dated April 5, 2005 between Moray Merchant and the Corporation [5];
- 4.16 Amendment to Employment Agreement dated April 5, 2005 between Dawson Reimer and the Corporation [5];
- 4.17 Amendment to Employment Agreement dated April 5, 2005 between Derek Reimer and the Corporation [5];
- 4.18 Amendment dated July 8, 2005 to the Development Agreement between Medicure International Inc. and CanAm Bioresearch Inc [5];
- 4.19 Amendment to Employment Agreement dated October 1, 2005 between A.D. Friesen Enterprises Ltd. and the Corporation [6];
- 4.20 Amendment to Development Agreement dated July 2, 2004 between Medicure International Inc. and Clinical Development Research Institute Inc. dated July 4, 2006 [6];
- 4.21 Amendment to Development Agreement dated June 1, 2000 between CanAm Bioresearch Inc. and Medicure International Inc. dated July 4, 2006 [6];
- 4.22 Amended Stock Option Plan approved October 25, 2005 [6];
- 4.23 Amendment to Employment Agreement dated October 1, 2006 between A.D. Friesen Enterprises Ltd. and the Corporation \*\*;
- 4.24 Amended License Agreement between Medicure and the University of Manitoba dated November 24, 2006, originally dated August 30, 1999, wherein the University of Manitoba granted to Medicure an exclusive license with regard to certain intellectual property (the U of M Licensing Agreement )\*\*.
11. Code of Ethics [4].
- 12.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \*\*.
- 12.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \*\*.
- 13.1 Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*\*.
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- [1] Herein incorporated by reference as previously included in the Corporation's Form 20-F registration statement filed on January 30, 2001.
- [2] Herein incorporated by reference as previously included in the Corporation's Form 20-F annual report filed on December 31, 2002.
- [3] Herein incorporated by reference as previously included in the Corporation's Form 20-F annual report filed on October 20, 2003.
- [4] Herein incorporated by reference as previously included in the Corporation's Form 20-F annual report filed on September 15, 2004.
- [5] Herein incorporated by reference as previously included in the Corporation's Form 20-F annual report filed on August 19, 2005.
- [6] Herein incorporated by reference as previously included in the Corporation's Form 20-F annual report filed on August 10, 2006.

\*\* Filed Herewith

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**SIGNATURE PAGE**

Pursuant to the requirements of Section 12 of the *Securities Exchange Act of 1934*, the Corporation certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 22, 2007

**ON BEHALF OF THE CORPORATION,  
MEDICURE INC.**

per:

Albert D. Friesen, Ph.D.  
Chairman, President & CEO

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