



**A Heart for Life**

***Medicure Inc.***

***Annual Consolidated Financial Statements for  
Years Ended May 31, 2009, 2008 and 2007***

**CORPORATE OFFICE:**

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Consolidated Financial Statements of

**MEDICURE INC.**

Years ended May 31, 2009, 2008 and 2007



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## AUDITORS' REPORT

To the Shareholders of Medicare Inc.

We have audited the consolidated balance sheets of Medicare Inc. as at May 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss, shareholders' equity (deficiency) and cash flows for each of the years in the three-year period ended May 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three-year period May 31, 2009, in accordance with Canadian generally accepted accounting principles.

Signed "**KPMG LLP**"

Chartered Accountants

Winnipeg, Canada

September 1, 2009

# MEDICURE INC.

Consolidated Balance Sheets  
(Expressed in Canadian dollars)

May 31, 2009 and 2008

	2009	2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,978,725	\$ 11,904,930
Accounts receivable (note 4)	551,697	884,343
Inventories (note 5)	631,303	316,359
Research advance (note 11)	–	200,000
Prepaid expenses	357,884	1,097,104
	<u>3,519,609</u>	<u>14,402,736</u>
Property and equipment (note 6)	93,532	132,887
Restricted cash (note 3)	–	11,916,000
Intangible assets (note 7)	5,936,819	8,353,610
	<u>\$ 9,549,960</u>	<u>\$ 34,805,233</u>

## Liabilities and Shareholders' Deficiency

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,512,377	\$ 5,851,175
Accrued interest on long-term debt (note 8)	2,542,560	1,323,299
Current portion of long-term debt (note 8)	–	1,986,000
	<u>4,054,937</u>	<u>9,160,474</u>
Long-term debt (note 8)	25,041,982	32,200,919
Shareholders' deficiency:		
Capital stock (note 9)	116,014,623	116,014,623
Warrants (note 9)	9,065,720	9,094,635
Contributed surplus	3,921,998	3,568,055
Deficit	<u>(148,549,300)</u>	<u>(135,233,473)</u>
	(19,546,959)	(6,556,160)

Nature of operations and going concern assumption (note 1)

Commitments and contingencies (note 11)

	<u>\$ 9,549,960</u>	<u>\$ 34,805,233</u>
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See accompanying notes to consolidated financial statements.

On behalf of the Board:

Signed "Dr. A.D. Friesen" Director

Signed "Gerald McDole" Director

# MEDICURE INC.

Consolidated Statements of Operations and Comprehensive Loss  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

	2009	2008	2007
Revenue:			
Product sales, net	\$ 4,792,513	\$ 2,247,129	\$ 5,944,730
Expenses:			
Cost of goods sold, excluding amortization	377,079	605,623	387,803
Selling, general and administrative	9,255,219	12,072,596	11,047,769
Research and development, net (note 11)	22,706	28,660,250	23,335,752
Investment tax credits	(565,932)	—	(171,927)
Impairment of intangible assets (note 7)	1,755,955	13,056,697	—
Amortization	938,733	2,652,566	2,288,745
	11,783,760	57,047,732	36,888,142
Loss before the undernoted	(6,991,247)	(54,800,603)	(30,943,412)
Other expenses (income):			
Interest and other	(255,713)	(1,149,574)	(1,590,801)
Interest	4,944,682	3,830,838	1,958,380
Foreign exchange loss (gain), net	1,635,611	(79,346)	392,395
	6,324,580	2,601,918	759,974
Loss and comprehensive loss for the year	\$ (13,315,827)	\$ (57,402,521)	\$ (31,703,386)
Basic and diluted loss per share	\$ (0.10)	\$ (0.46)	\$ (0.30)
Weighted average number of common shares used in computing basic and diluted loss per share	130,307,552	125,476,086	104,879,404

See accompanying notes to consolidated financial statements.

# MEDICURE INC.

Consolidated Statements of Shareholders' Equity (Deficiency)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

	2009	2008	2007
<b>Capital stock:</b>			
Balance, beginning of year	\$ 116,014,623	\$ 109,102,397	\$ 81,226,634
Adoption of financial instrument standards	—	(6,425,336)	—
Exercise of options for cash	—	90,241	347,456
Private placement on October 5, 2007, net of issue costs of \$714,445	—	13,247,321	—
Private placements on December 22 and December 28, 2006, net of issue costs of \$2,366,056	—	—	27,528,307
Balance, end of year	116,014,623	116,014,623	109,102,397
<b>Warrants:</b>			
Balance, beginning of year	9,094,635	—	—
Warrants expired during the period	(28,915)	—	—
Adoption of financial instrument standards	—	6,425,336	—
Warrants granted with long-term debt (note 8)	—	809,344	—
Private placement on October 5, 2007, net of issue costs of \$104,795	—	1,859,955	—
Balance, end of year	9,065,720	9,094,635	—
<b>Contributed surplus:</b>			
Balance, beginning of year	3,568,055	3,035,024	2,070,670
Warrants expired during the period	28,915	—	—
Stock-based compensation	325,028	563,272	1,025,310
Options exercised - transferred to capital stock	—	(30,241)	(60,956)
Balance, end of year	3,921,998	3,568,055	3,035,024
<b>Deficit:</b>			
Balance, beginning of year	(135,233,473)	(77,830,952)	(46,127,566)
Loss and comprehensive loss for the year	(13,315,827)	(57,402,521)	(31,703,386)
Balance, end of year	(148,549,300)	(135,233,473)	(77,830,952)
Shareholders' equity (deficiency)	\$ (19,546,959)	\$ (6,556,160)	\$ 34,306,469

See accompanying notes to consolidated financial statements.

# MEDICURE INC.

Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

	2009	2008	2007
Cash provided by (used in):			
Operating activities:			
Loss for the year	\$ (13,315,827)	\$ (57,402,521)	\$ (31,703,386)
Adjustments for:			
Amortization of property and equipment	42,907	78,222	41,187
Amortization of intangible assets	895,826	2,574,344	2,247,558
Amortization of deferred debt issue expenses	383,445	327,484	211,096
Accretion on long-term debt	426,521	216,853	-
Stock-based compensation	325,028	563,272	1,025,310
Write-off of inventory	92,985	428,822	-
Impairment of intangible assets	1,755,955	13,056,697	-
Foreign exchange loss (gain)	1,657,142	634,336	(792,696)
Change in the following:			
Accounts receivable	332,646	1,163,917	(1,589,836)
Inventories	(407,929)	(105,177)	(640,004)
Prepaid expenses	739,220	71,499	(905,887)
Research advance	200,000	-	-
Accrued interest on long-term debt	792,740	1,106,446	-
Accounts payable and accrued liabilities	(4,338,798)	(2,685,694)	6,892,530
	(10,418,139)	(39,971,500)	(25,214,128)
Investing activities:			
Acquisition of property and equipment	(3,552)	(14,588)	(187,045)
Acquisition of intangible assets	(234,990)	(572,520)	(22,737,848)
	(238,542)	(587,108)	(22,924,893)
Financing activities:			
Issuance of common shares and warrants, net of share issue costs	-	15,167,276	27,814,807
Proceeds from issuance of long-term debt and warrants	-	25,022,600	17,767,685
Repayments of long-term debt	(14,454,000)	(3,959,616)	-
Debt issue expenses	-	(1,727,902)	(561,059)
Use of restricted cash	14,454,000	(11,916,000)	-
	-	22,586,358	45,021,433
Foreign exchange gain (loss) on cash held in foreign currency	730,476	(1,893,140)	(32,525)
Decrease in cash and cash equivalents	(9,926,205)	(19,865,390)	(3,150,113)
Cash and cash equivalents, beginning of year	11,904,930	31,770,320	34,920,433
Cash and cash equivalents, end of year	\$ 1,978,725	\$ 11,904,930	\$ 31,770,320
Supplementary information:			
Cash transactions:			
Interest paid	\$ 3,341,975	\$ 2,353,130	\$ 1,574,209
Interest received	542,761	1,023,347	1,596,616

See accompanying notes to consolidated financial statements.

# MEDICURE INC.

Notes to Consolidated Financial Statements  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 1. Nature of operations and going concern assumption:

Medicure Inc. (the Company) is a biopharmaceutical company engaged in the research and development and commercialization of human therapeutics. The Company has the U.S. rights to the 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.

The Company's lead research and development program is TARDOXAL™ (product previously referred to as AVASTREM™). This program grew out of Medicure's effort to reposition MC-1, pyridoxal 5' phosphate (P5P), a naturally occurring small molecule, for new chronic medical conditions. The Company is also looking to generate shareholder value by, among other things, exploring other potential applications of MC-1 and by gaining value from its library of small-molecule anti-thrombotics.

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the Company has experienced operating losses and cash outflows from operations since incorporation and has significant debt servicing obligations. In addition, the Company has had to seek extensions from its lender under its secured debt financing agreement dated September 17, 2007 to defer a required payment originally due July 15, 2009 [note 8(a)]. Without these extensions the Company would have been in default in respect to its long-term debt. Upon an event of default, the lender could exercise its security rights under the agreement.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 1. Nature of operations and going concern assumption (continued):

The Company has experienced a loss of \$13,315,827 and negative cash flows from operations of \$10,418,139 in the year ended May 31, 2009, and has accumulated a deficit of \$148,549,300 as at May 31, 2009. In March 2008, the Company announced a corporate restructuring which included a significant reduction in numbers of staff and in resources allocated to certain programs. The Company continues to further reduce its staff and corporate expenses to the extent deemed appropriate in order to more closely align expenses with net revenue. The Company is also in discussions with its senior lender to restructure its debt. Based on the Company's operating plan its existing working capital is not sufficient to fund its planned operations, capital requirements, debt servicing obligations, and commitments through the end of the fiscal 2010 year without restructuring of its debt and raising additional capital. No agreements with the lender or other potential lenders or investors have been reached yet and there can be no assurance that such agreements will be reached. Further, the Company's financing agreement includes certain restrictive covenants on commercial and developmental products including intellectual property. The ability of the Company to execute on its operating plan is likely to be contingent on having collaborative relationships with its lender. If the Company is unable to restructure its debt, complete other strategic alternatives, and/or secure additional funds, the Company will have to consider additional strategic alternatives which may include, among other strategies, asset divestitures, monetization of certain intangibles, and/or the winding up, dissolution or liquidation of the Company.

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 actions taken or planned, some of which are described above, which are intended to mitigate the adverse conditions and events which raise doubt about the validity of the going concern assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern.

The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 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 16 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, Medicure International Inc., Medicure Pharma Inc., and Medicure 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. Revenue is recognized upon product delivery, 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 term deposits and commercial paper. The Company considers all highly liquid term deposits and commercial paper 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, 2009, 2008 and 2007

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## 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% to 25%
Leasehold improvements	Straight-line	20%

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### (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

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### (g) Deferred debt issue expenses:

Costs incurred to obtain financing are deferred and amortized over the term of the associated debt using the effective interest method. Amortization is a non-cash charge to interest expense.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 2. Significant accounting policies (continued):

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

The carrying amount of long-lived assets which includes property and equipment and intangible assets to be held and used is reviewed for impairment on an ongoing basis whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

### (i) Stock-based compensation:

The Company has a stock option plan [note 9(c)] 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. The Company estimates forfeitures for each grant and incorporates this estimate into the calculation of compensation cost recorded each 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) incurred directly by the Company 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.

### (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 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).

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 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) 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 treasury stock method requires that diluted per share amounts be calculated as if all the common share equivalents, such as options and warrants 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, 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 common share equivalents have been excluded from the calculation of dilutive loss per share as their effect is anti-dilutive.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 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. Estimates are used when accounting for items and matters such as revenue recognition and allowances for estimated returns and other rebates, inventory provisions, estimated useful lives of intangible assets and equipment, impairment assessments, taxes and related valuation allowances and provisions, share-based compensation, contingencies, and fair values assigned to warrants issued in connection with share and debt issuances. Actual results could differ from those estimates.

### (q) Financial instruments:

Financial assets and financial liabilities, including derivatives are initially recognized at fair value. Subsequent measurement is determined by the classification of each financial asset and liability. The Company has designated its financial instruments as follows:

- Cash and cash equivalents are classified as held-for-trading. They are measured at fair value and the gains or losses resulting from re-measurement at the end of each period are recognized in net loss for the period.
- Accounts receivable are classified as loans and receivables. They are measured at amortized cost using the effective interest rate method.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 2. Significant accounting policies (continued):

- Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities. They are measured at amortized cost using the effective interest rate method.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities not classified as held-for-trading are accounted for as part of the respective asset or liability's carrying value at inception and amortized over the expected life of the financial instrument using the effective interest method.

### (r) Changes in accounting policy:

On June 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535), CICA Handbook Section 3862, *Financial Instruments - Disclosure* (Section 3862), CICA Handbook Section 3863, *Financial Instruments - Presentation* (Section 3863), CICA Handbook Section 3031, *Inventories* (Section 3031), and amended CICA Handbook Section 1400, *General Standards of Financial Statement Presentation* (Section 1400).

Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. Disclosure requirements pertaining to this section are contained in note 14 to the consolidated financial statements.

Section 3862 and Section 3863 replace Section 3861, *Financial Statements - Disclosure and Presentation*, revising and enhancing disclosure requirements. Section 3863 carries forward presentation related requirements of Section 3861. Disclosure requirements pertaining to these sections are contained in note 13 to the consolidated financial statements.

Section 3031 supersedes existing guidance on inventories in Section 3030, *Inventories*. This standard introduces significant changes to the measurement and disclosure of inventories, including the requirement to measure inventories at the lower of cost and net realizable value, the allocation of fixed production overheads based on normal capacity, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. The adoption of this section did not have a material impact on the Company's financial statements.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 2. Significant accounting policies (continued):

Section 1400 was amended to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. When preparing financial statements, management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. See note 1 to the consolidated financial statements.

### (s) Recent accounting pronouncements:

- (i) In February 2008, the Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required, for fiscal years beginning on or after January 1, 2011, for publicly accountable profit-oriented enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. The Company will be required to adopt IFRS no later than June 1, 2011, with restatement of comparative periods.
- (ii) Section 3064, *Goodwill and Intangible Assets*, amends the standards for recognition, measurement, presentation and disclosure of intangible assets for profit-oriented enterprises. These standards are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. Standards concerning goodwill are unchanged from previous standards. The Company is currently assessing the impact of adoption of this new standard, which will be effective for its year ended May 31, 2010.
- (iii) In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 2. Significant accounting policies (continued):

- (iv) In January 2009, the CICA issued Handbook Section 1602, *Non-controlling Interests*, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. The section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.
- (v) In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

## 3. Restricted cash:

As at May 31, 2009, the Company has nil (May 31, 2008 - \$11,916,000, US\$12,000,000) in restricted cash, which was cash on deposit to secure the Merrill Lynch Financial Services Inc. (formerly Merrill Lynch Capital Canada Inc.) term loan facility (note 8). The term loan was repaid in full on October 31, 2008.

## 4. Accounts receivable:

	2009	2008
Trade accounts receivable	\$ 448,563	\$ 327,249
Interest receivable	10,352	310,348
Other	92,782	246,746
	<u>\$ 551,697</u>	<u>\$ 884,343</u>

As at May 31, 2009, the trade accounts receivable consists of amounts owing from three customers which represent approximately 95 percent (May 31, 2008 - 100 percent) of trade accounts receivable.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

## 5. Inventories:

	2009	2008
Raw materials and packaging materials	\$ 145,146	\$ 92,985
Finished goods	486,157	223,374
	<u>\$ 631,303</u>	<u>\$ 316,359</u>

During the year, the Company wrote-off unusable inventory of \$ \$92,985 (2008 - \$428,822).

## 6. Property and equipment:

May 31, 2009	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 155,958	\$ 143,919	\$ 12,039
Furniture, fixtures and equipment	184,056	102,563	81,493
Leasehold improvements	20,671	20,671	–
	<u>\$ 360,685</u>	<u>\$ 267,153</u>	<u>\$ 93,532</u>

May 31, 2008	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 151,565	\$ 137,827	\$ 13,738
Furniture, fixtures and equipment	184,896	65,747	119,149
Leasehold improvements	20,671	20,671	–
	<u>\$ 357,132</u>	<u>\$ 224,245</u>	<u>\$ 132,887</u>

## 7. Intangible assets:

May 31, 2009	Cost, net of impairment	Accumulated amortization	Net book value
Patents	\$ 9,654,175	\$ 4,696,494	\$ 4,957,681
Trademark	1,534,440	702,173	832,267
Customer list	270,784	123,913	146,871
	<u>\$ 11,459,399</u>	<u>\$ 5,522,580</u>	<u>\$ 5,936,819</u>

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

## 7. Intangible assets (continued):

May 31, 2008	Cost net of impairment	Accumulated amortization	Net book value
Patents	\$ 11,263,893	\$ 4,021,700	\$ 7,242,193
Trademark	1,534,440	589,736	944,704
Customer list	270,784	104,071	166,713
	<u>\$ 13,069,117</u>	<u>\$ 4,715,507</u>	<u>\$ 8,353,610</u>

During the year ended May 31, 2009, the Company initiated a review of all intellectual property as part of its ongoing cost curtailment program. Based on this review a decision was made to discontinue maintenance of certain patents and patent applications deemed not material to the Company's commercial and research operations. As a result, the Company recorded an impairment write-down of \$1,755,955. The Company also reviewed the remaining intangible assets for impairments as at May 31, 2009 and has determined no further write-downs were necessary.

During the year ended May 31, 2008, conditions had arisen which triggered the need to review certain of the Company's long-lived assets for impairment. As a result the Company recorded an impairment write-down of \$13,056,697 to the carrying value of value of patents, trademark, technology license, and customer list which exceeded their fair value based on discounted future cash flows and market prices for similar assets.

As described in note 8, certain intangible assets are pledged as security against long-term debt.

## 8. Long-term debt:

	2009	2008
Birmingham long-term debt (a)	\$ 25,041,982	\$ 22,460,084
Merrill Lynch Business Financial Services Inc. (formerly Merrill Lynch Capital Canada Inc.) term loan facility (b)	–	11,726,835
	<u>25,041,982</u>	<u>34,186,919</u>
Current portion of long-term debt (b)	–	(1,986,000)
	<u>\$ 25,041,982</u>	<u>\$ 32,200,919</u>

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

## 8. Long-term debt (continued):

Principal repayments to maturity by fiscal year are as follows:

2012	\$ 906,868
2013	1,895,001
2014	2,718,140
Thereafter	21,772,491
	<hr/> 27,292,500
Less deferred debt issue expenses (net of accumulated amortization of \$360,945)	(2,250,518)
	<hr/> \$ 25,041,982

- (a) In September 2007, the Company entered into a debt financing agreement with Birmingham Associates Ltd. (Birmingham), an affiliate of Elliott Associates, L.P. (Elliott) for proceeds of US\$25 million. Under the terms of the agreement, Birmingham receives payments based on a percentage of AGGRASTAT® net sales. Birmingham is entitled to a return of 20 percent on the first US\$15 million in AGGRASTAT® revenues, 17.5 percent on the next US\$10 million, 15 percent on the next US\$5 million and 5 percent thereafter, subject to an escalating minimum annual return, until May 31, 2020. The minimum annual returns start at US\$2.5 million in 2008 and escalate to US\$6.9 million in 2017. The total minimum payments over the life of the agreement aggregate US\$49.7 million. The annual minimum payments are reflected in the effective interest rate calculation of the debt. As at May 31, 2009 the current portion of the minimum payment due that is included in the accrued interest on long-term debt is \$1,899,186, or US\$1.7 million (2008 - \$1,106,446). This US\$1.7 million payment was originally due on July 15, 2009 however the Company has negotiated extensions with the lender to August 14, 2009 and subsequently to September 1, 2009. Effective September 1, 2009 the Company and the lender agreed to a further deferral to be in effect until the earlier of November 30, 2009 and the date which is five business days following the date on which the Company receives written notice from the lender. Under the terms of the extension agreements, and only while they remain in force, non-payment of this amount or further amounts due does not result in an event of default. In the event of default, the lender could exercise its security rights under the agreement (see note 1).

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 8. Long-term debt (continued):

As disclosed in note 9(d), the Company issued 1,000,000 warrants associated with the debt financing agreement. The warrants were valued at CDN\$809,344 based on the fair value of the options at the date of issue using the Black-Scholes option pricing model. The warrants have been recorded in shareholders' equity. The Company recorded a long-term debt liability of CDN\$24,213,256, representing the residual value of the proceeds received under the debt agreement. The Company also incurred debt issuance costs of CDN\$1,727,902, which it has recorded as a discount on the debt. The imputed effective interest rate is 13.3 percent.

Birmingham has the option to convert its rights based on AGGRASTAT® to MC-1 (products that contains P5P) within six months after MC-1's commercialization, if achieved. Upon conversion to MC-1, Birmingham would be entitled to a return of 10 percent on the first US\$35 million in MC-1 revenues, 5 percent on the next US\$40 million in MC-1 revenues and 3 percent thereafter, subject to a minimum annual return of US\$2.6 million until May 31, 2020. Birmingham would receive payments based on MC-1 revenues until December 31, 2024, unless a novel patent is obtained for MC-1, which could extend the period of payments.

Birmingham's participation rights are 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-1 products), 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, as well as shares in Medicure Pharma Inc. and Medicure International Inc.

During the 30 day period following the date on which the U.S. Food and Drug Administration shall have first approved MC-1 for sale to the public, the Company may elect to terminate AGGRASTAT® or MC-1 Debt Payment rights with the payment, prior to the end of such 30 day period, of US\$70 million to Birmingham.

In addition, upon the approval of MC-1 for a second indication, the Company may once again elect to terminate AGGRASTAT® or MC-1 debt payment rights with the payment, prior to the end of such 30 day period, of US\$120 million to Birmingham. The termination options represent an embedded derivative as defined in CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*. As of May 31, 2009, the estimated fair value of the termination options is nil.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 8. Long-term debt (continued):

- (b) In August 2006, the Company obtained a term loan facility maturing February 1, 2010, from Merrill Lynch Business Financial Services Inc. (Merrill) (formerly Merrill Lynch Capital Canada Inc.), Silicon Valley Bank and Oxford Finance Corporation.

On October 31, 2008, the Company exercised its option to repay the loan before the scheduled maturity date of February 1, 2010. A 5 percent early termination fee was incurred amounting to US\$600,000, which has been recorded in interest expense in the consolidated statements of operations and comprehensive loss.

## 9. 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	\$
<i>Common shares:</i>		
Balance at May 31, 2008	130,307,552	\$ 116,014,623
Balance at May 31, 2009	130,307,552	\$ 116,014,623

- (c) 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 ten percent of the outstanding 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.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

## 9. Capital stock (continued):

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

	Year ended May 31, 2009		Year ended May 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	6,717,683	\$ 0.87	4,235,528	\$ 1.52
Granted	2,905,000	0.04	4,435,649	0.46
Exercised	—	—	(80,000)	0.75
Cancelled or expired	(2,349,876)	0.82	(1,873,494)	1.31
<b>Balance, end of year</b>	<b>7,272,807</b>	<b>\$ 0.57</b>	<b>6,717,683</b>	<b>\$ 0.87</b>

Options exercisable, end of period	3,313,339		2,138,028	
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	2009	2008	2007
Weighted average fair value per unit of options granted during the period at market value on grant date	\$ 0.02	\$ 0.28	\$ 1.07

Options outstanding at May 31, 2009 consist of the following:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Options outstanding weighted average exercise price	Number exercisable
\$ 0.03 - 1.68	6,722,807	8.63 years	\$ 0.44	2,763,339
1.82 - 2.73	550,000	4.24 years	2.14	550,000
	<b>7,272,807</b>	<b>8.30 years</b>	<b>\$ 0.57</b>	<b>3,313,339</b>

The compensation expense related to stock options granted under the stock option plan during fiscal 2009 aggregated \$325,028 (2008 - \$563,272). 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:

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

## 9. Capital stock (continued):

	2009	2008
Expected option life	6.8 years	6.8 years
Risk-free interest rate	3.55%	3.99%
Dividend yield	—	—
Expected volatility	73.55%	63.19%

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.

### (d) Warrants:

Issue (Expiry date)	Original granted	Exercise price per share	May 31, 2007	Granted (Exercised) (Cancelled)	May 31, 2008	Granted (Exercised) (Cancelled)*	May 31, 2009
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	—	3,984,608
1,000,000 units (December 31, 2016)	1,000,000	US 1.26	—		1,000,000	—	1,000,000
4,373,913 units (October 5, 2012)	4,373,913	US 1.50	—		4,373,913	—	4,373,913

The warrants, with the exception of the warrants expiring on December 31, 2016, were issued together with common shares either under prospectus offerings or private placements with the net proceeds allocated to common shares and warrants based on their relative fair values using the Black-Scholes model. The warrants expiring on December 31, 2016 were issued with the debt financing agreement in September 2007, as disclosed in note 8(a).

The warrants expiring on May 9, 2011, December 22, 2011, October 5, 2012, and December 31, 2016 may be exercised, upon certain conditions being met, on a cashless basis based on a formula described in the warrant agreements.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

## 9. Capital stock (continued):

(e) 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.

## 10. Income taxes:

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

	2009	2008
Future tax assets:		
Research and development expenses deductible in future periods for income tax purposes	\$ 3,793,000	\$ 2,136,000
Share issue costs	632,000	1,065,000
Operating losses carried forward	4,956,000	5,429,000
Other	720,000	712,000
	10,101,000	9,342,000
Less valuation allowance	(10,101,000)	(9,342,000)
	\$ —	\$ —

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

	2009	2008	2007
Loss for the year:			
Canadian	\$ 3,777,652	\$ 5,111,984	\$ 4,575,446
Foreign	9,538,175	52,290,537	27,127,940
	\$ 13,315,827	\$ 57,402,521	\$ 31,703,386
Canadian federal and provincial income taxes recovery at 27% (2008 - 27%; 2007 - 32.5%)	\$ 3,595,000	\$ 15,499,000	\$ 10,304,000
Foreign tax rate differential	(2,256,000)	(12,914,000)	(7,947,000)
Permanent differences	(64,000)	(126,000)	(333,000)
Change in statutory rates	—	(964,000)	(374,000)
Valuation allowance	(759,000)	(1,888,000)	(1,650,000)
Other	(516,000)	393,000	—
	\$ —	\$ —	\$ —

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 10. Income taxes: (continued):

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 the Company's wholly-owned subsidiaries, Medicare International Inc. and Medicare Pharma Inc.

At May 31, 2009, the Company has Canadian and foreign unutilized operating losses carried forward for income tax purposes of \$7,900,396 and \$104,421,816, respectively. These losses are available to be applied against taxable income of future years up to fiscal 2029. The Company also has scientific and development investment tax credits of \$3,826,000 (2008 - \$1,983,000).

## 11. Commitments and contingencies:

### (a) Commitments:

As at May 31, 2009 and in the normal course of business we have obligations to make future payments, representing contracts and other commitments that are known and committed.

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	Purchase agreement commitments
Contractual obligations payment due by fiscal period ending May 31: (US\$)	
2010	\$ 483,000
2011	644,000
2012	805,000
2013	403,000
	<hr/> \$ 2,335,000 <hr/>

The Company entered into manufacturing and supply agreements, as amended, to purchase a minimum quantity of AGGRASTAT® from a third party totaling a minimum of US\$2,335,000 (based on current pricing) over the term of the agreement, which expires in fiscal 2013.

In addition, as described in note 8(a) the Company has entered into a debt financing agreement for a US\$25 million upfront cash payment. The minimum annual payments start at US\$2.5 million in 2008 and escalate to US\$6.9 million in 2017 and continue until May 31, 2020. The cumulative minimum annual payments (from 2008 to 2020) under the agreement aggregate US\$49.7 million.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 11. Commitments and contingencies (continued):

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.

- (i) Contracts with 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, 2009, the Company has no outstanding commitments related to clinical research agreements with CROs. For the year ended May 31, 2009, the Company recovered approximately \$970,000 (2008 - \$249,000) in previously expensed research and development costs.
- (ii) As at May 31, 2009, the Company has committed to fund a further \$25,805,543 in research and development activities under two development agreements with 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.

### (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.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 11. Commitments and contingencies (continued):

### (c) Royalties:

The Company is obligated to pay royalties to third parties based on any future commercial sales of MC-1, aggregating up to 3.9 percent on net sales. To date, no royalties are due and/or payable.

The above royalty commitments exclude any obligations to Birmingham pursuant to the debt financing agreement [note 8(a)].

## 12. Related party transactions:

During the year ended May 31, 2009, the Company paid companies controlled by a director a total of \$350,011(2008 - \$348,517; 2007 - \$358,345) 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.

## 13. Financial instruments:

The Company has classified its financial instruments as follows:

	2009	2008
Financial assets:		
Cash and cash equivalents (held-for-trading)	\$ 1,978,725	\$ 11,904,930
Accounts receivable and research advances (loans and receivables)	551,697	1,084,343
Restricted cash (held-for-trading)	–	11,916,000
	<u>\$ 2,530,422</u>	<u>\$ 24,905,273</u>
Financial liabilities:		
Accounts payable and accrued liabilities (other financial liabilities)	\$ 4,054,937	\$ 7,174,474
Long-term debt (other financial liabilities)	25,041,982	34,186,919
	<u>\$ 29,096,919</u>	<u>\$ 41,361,393</u>

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 13. Financial Instruments (continued):

The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash and cash equivalents, accounts receivable and research advances, restricted cash and accounts payable and accrued liabilities, approximates their fair value because of the relatively short periods to maturity of these instruments. Management cannot reasonably estimate the fair value of the long term debt due to the financial condition of the Company (note 1) and underlying terms and conditions of the debt agreement (note 8). The Company has not entered into futures or forward contracts as at May 31, 2009.

The Company's financial instruments are exposed to certain financial risk, including credit risk, liquidity and market risk.

### (a) Credit risk:

Credit risk is the risk of financial loss to the Company if a partner or counterparty to a financial instrument fails to meet its contractual obligation and arises principally from the Company's cash and cash equivalents, restricted cash and accounts receivable. The carrying amounts of the financial assets represent the maximum credit exposure.

The Company limits its exposure to credit risk on cash and cash equivalents by placing these financial instruments with high-credit quality financial institutions.

The Company is subject to a concentration of credit risk related to its accounts receivable as amounts are owing primarily from three customers. At May 31, 2009, the outstanding accounts receivable were within normal payment terms and the Company had recorded no allowance for doubtful accounts.

### (b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows, as well as anticipated investing and financing activities and to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due and to fund future operations. The Company is currently in negotiations with its lender to restructure a payment of US\$1.7 million which at May 31, 2009 was due on July 15, 2009, and subsequent to year end extensions were obtained from the lender (note 1). Depending on the outcome of these negotiations the Company may not have sufficient working capital to maintain operations.

The majority of the Company's accounts payable and accrued liabilities are due within the current operating period. For long-term debt repayments see note 8.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

## 13. Financial Instruments (continued):

### (c) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency and interest rates, will affect the Company's earnings or the value of the financial instruments held.

#### (i) Currency risk:

Currency exchange rate risk is the risk that the fair value of future cash flows for financial instruments will fluctuate because of the change in foreign exchange rates. The Company is exposed to currency risks primarily due to its U.S. dollar denominated cash and cash equivalents, restricted cash, accounts payable and accrued liabilities and long-term debt. The Company has not entered into any forward foreign exchange contracts.

The Company is exposed to U.S. dollar currency risk through the following U.S. denominated financial assets and liabilities:

(Expressed in \$U.S.)	2009	2008
Cash and cash equivalents	\$ 1,151,509	\$ 7,454,830
Accounts receivable	410,885	524,432
Restricted cash	—	12,000,000
Accounts payable and accrued liabilities	(3,263,091)	(5,086,549)
Long term debt	(25,000,000)	(37,000,000)
Net	\$ (26,700,697)	\$ (22,107,287)

Based on the above net exposures as at May 31, 2009, assuming that all other variables remain constant, a 5 percent appreciation or deterioration of the Canadian dollar against the U.S. dollar would result in a corresponding decrease or increase of approximately \$1,500,000 in the Company's net loss.

#### (ii) Interest rate risk:

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk arising primarily from fluctuations in interest rates on its cash and cash equivalents.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 13. Financial Instruments (continued):

An increase in 100 basis points in interest rates during the 12 month period May 31, 2009, with all other variables held constant, would have decreased the shareholders' deficiency and decreased the net loss by approximately \$13,000. The Birmingham debt has been excluded due to the nature of the interest payments as described in note 8.

## 14. Management of capital:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern (note 1) and to provide capital to pursue the development and commercialization of its products.

In the management of capital, the Company includes cash and cash equivalents, long-term debt, capital stock, warrants and contributed surplus.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances, granting of stock options, the issue of debt or by undertaking other activities as deemed appropriate under the specific circumstance. The Company's overall strategy with respect to capital risk management remains unchanged from the year ended May 31, 2008.

## 15. Segmented information:

The Company 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, 2009, 100 percent of product revenues were generated from sales of AGGRASTAT® in the United States, which was to seven customers. Customer A accounted for 32 percent, Customer B accounted for 31 percent, Customer C accounted for 31 percent, and the remaining four customers accounted for 6 percent of revenues.

Property and equipment and intangible assets are located in the following countries:

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	2009	2008
Canada	\$ 129,430	\$ 205,904
Barbados	5,837,505	8,184,642
United States	63,416	95,951

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# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 16. 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 with 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, 2009, 2008 and 2007, research and development expense would have increased by \$ 234,990, \$572,520 and \$618,330, respectively. Under U.S. GAAP, the related reduction in amortization expense is \$61,821 for the year ended May 31, 2009 (2008 - \$179,587; 2007 - \$206,899). During the year ended May 31, 2009, the Company wrote-down its patent asset related to research and development activities by \$1,755,955 (2008 - \$883,784). This asset was expensed previously under U.S. GAAP, resulting in an adjustment to decrease net loss for the year ended May 31, 2009 by \$1,755,955 (2008 - \$883,784; 2007 - nil).

### (b) Change in accounting policies:

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. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007. On June 1, 2008, the Company adopted the currently effective provisions of SFAS 157. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

## 16. Reconciliation of generally accepted accounting principles (continued):

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 adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In June 2007, the Emerging Issues Task Force issued EITF Issue 07-03, *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development* (EITF 07-03). EITF 07-03 addresses the diversity which exists with respect to the accounting for the non-refundable portion of a payment made by a research and development entity for future research and development activities. Under EITF 07-03, an entity would defer and capitalize non-refundable advance payments made for research and development activities until the related goods are delivered or the related services are performed. EITF 07-03 is effective for fiscal years beginning after December 15, 2007 and interim periods within those years. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

### (c) Summary:

The impact of the measurement differences to U.S. GAAP on the consolidated statements of operations and deficit are as follows:

	2009	2008	2007
Loss for the period, Canadian GAAP	\$ (13,315,827)	\$ (57,402,521)	\$ (31,703,386)
Adjustments for the following:			
Intangible assets (a)	(234,990)	(572,520)	(618,330)
Amortization of intangible assets (a)	61,821	179,587	206,899
Impairment of intangible assets (a)	1,755,955	883,784	—
Loss for the period, U.S. GAAP	\$ (11,733,041)	\$ (56,911,670)	\$ (32,114,817)
Basic and diluted loss per share, U.S. GAAP	\$ (0.09)	\$ (0.45)	\$ (0.31)
Weighted average number of common shares	130,307,552	125,476,086	104,879,404

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

## 16. Reconciliation of generally accepted accounting principles (continued):

The impact of the measurement differences to U.S. GAAP would result in the consolidated statements of cash flow items as follows:

	2009	2008	2007
Operating activities	\$ 10,653,129	\$ (40,544,020)	\$ (25,832,458)
Investing activities	(3,552)	(14,588)	(22,306,563)
Financing activities	–	22,586,358	45,021,433

The impact of the measurement differences to U.S. GAAP described above would result in the consolidated balance sheet items as follows:

	2009	2008
Deferred debt issue expenses	\$ 2,250,518	\$ 2,554,081
Long-term debt	27,292,500	36,741,000
Intangible assets	4,676,656	5,510,661
Capital stock and contributed surplus	145,246,995	144,921,967
Deficit	(166,053,766)	(154,320,725)

### (d) Recent accounting pronouncements:

The following accounting standards were issued recently by the FASB. The Company is currently evaluating the impact of these new standards on its consolidated financial statements.

In November 2007, the Emerging Issues Task Force issued EITF Issue 07-01, *Accounting for Collaborative Arrangements* (EITF 07-01). EITF 07-01 requires collaborators to present the results of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP or, in the absence of other applicable GAAP, based on analogy to authoritative accounting literature or a reasonable, rational, and consistently applied accounting policy election. Further, EITF No. 07-01 clarified that the determination of whether transactions within a collaborative arrangement are part of a vendor-customer (or analogous) relationship subject to Issue 01-9, *Accounting for Consideration Given by a Vendor to a Customer*. EITF 07-01 is effective for fiscal years beginning after December 15, 2008.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Years ended May 31, 2009, 2008 and 2007

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## 16. Reconciliation of generally accepted accounting principles (continued):

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS 141R). SFAS 141R will change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 revises the disclosure requirements for derivative instruments and hedging activities. SFAS 161 is effective for financial years beginning on or after November 15, 2008.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*.

In June 2008, the Emerging Issues Task Force issued EITF Issue No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock* (EITF 07-5).

The instruments affected by this issue may contain contract terms that call into question whether the instrument or embedded feature is indexed to the entity's own stock. A derivative instrument or embedded derivative feature that is deemed indexed to an entity's own stock may be exempt from the requirements of Statement 133 for derivatives. In addition, a freestanding instrument that is indexed to a company's own stock remains eligible for equity classification under Issue 00-19.

# MEDICURE INC.

Notes to Consolidated Financial Statements (continued)  
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Years ended May 31, 2009, 2008 and 2007

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## **16. Reconciliation of generally accepted accounting principles (continued):**

The consensus addresses the following issues:

- How an entity should evaluate whether an instrument (or embedded feature) is indexed to its own stock.
- How the currency in which the strike price of an equity-linked financial instrument (or embedded equity-linked feature) is denominated affects the determination of whether the instrument is indexed to an entity's own stock.
- How an issuer should account for market-based employee stock option valuation instruments.

As a result of the adoption of EITF 07-5, the Company will be required to reclassify its issued warrants out of equity classification to a liability classification and mark-to-market each period with changes in fair value going through the statement of operations. The consensus is effective for fiscal years and interim periods beginning after December 15, 2008. The consensus must be applied to outstanding instruments as of the beginning of the fiscal year in which the Issue is adopted as a cumulative-effect adjustment to the opening balance of retained earnings for that fiscal year. Early application is not permitted.

## **17. Comparative figures:**

Certain comparative figures have been reclassified to confirm with the financial statement presentation adopted in the current year.