MEDICURE INC
Form 20-F
August 16, 2006

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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

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

For the fiscal year ended: **May 31, 2006**

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**

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, 2006 the registrant had 96,046,465 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__

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

Yes __X__ **No** _____

Indicate by check mark whether the registrant 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** __X__ **Non-Accelerated Filer** _____

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 __X__ **Item 18 No** _____

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

Yes _____ **No** __X__

As of May 31, 2006, the rate for Canadian dollars was US $0.9079 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;

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

"**NSAID**" means non-steroidal anti-inflammatory drugs;

"**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;

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 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. 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 co negative or other variations of comparable terminology, are intended to identify forward-looking statements.

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., Medicure refers to Medicure Inc. prior to its amalgamation with Lariat Capital Inc. and Lariat refers to Lariat Capital Inc. prior to its amalgamation with Medicure Inc. Unless otherwise indicated, all references to dollar amounts in this annual report are to Canadian dollars.

Additional information about the Corporation may be found at www.sedar.com.

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, 2006 and 2005 and for the fiscal years ended May 31, 2006, and 2005 and 2004 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, 2004, 2003 and 2002 and for the fiscal years ended May 31, 2003 and 2002 was extracted from the audited financial statements of the Corporation not included in this annual report. Reference is made to Note 10 of the consolidated financial statements of the Corporation included herein for a discussion of the material measurement differences 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, the Corporation s available working capital will be sufficient into the first quarter of fiscal 2008.

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

Balance Sheet Data (as at period end)	**May 31, 2006 $**	**May 31, 2005 $**	**May 31, 2004 $**	**May 31, 2003 $**	**May 31, 2002 $**
Current Assets	35,841,573	8,658,888	21,342,820	4,465,048	8,783,318
Capital Assets	50,663	81,002	66,202	67,497	84,571
Intangible Assets	2,921,841	1,332,969	976,690	763,464	508,902
Total Assets	38,814,077	10,072,859	22,385,712	5,296,009	9,376,791
Total Liabilities	1,644,339	2,732,754	817,575	353,908	389,663
Net Assets	37,169,738	7,340,105	21,568,137	4,942,101	8,987,128
Capital Stock and Contributed Surplus	83,297,304	40,860,597	40,222,719	17,607,597	17,458,936
Deficit Accumulated During the Development Stage	(46,127,566)	(33,520,492)	(18,654,582)	(12,665,496)	(8,471,808)
Statement of Operations (for the fiscal year ended on)					
Gross Revenue	299,737	394,784	445,461	241,281	183,912
Loss from Continuing Operations	(12,607,074)	(14,865,910)	(5,989,086)	(4,193,688)	(3,875,087)
Net Loss for the Period	(12,607,074)	(14,865,910)	(5,989,086)	(4,193,688)	(3,875,087)
Basic and Diluted	(0.17)	(0.22)	(0.11)	(0.11)	(0.14)

Loss per Share					
Weighted-Average					
Number of					
Common Shares	75,144,764	66,717,715	55,738,716	37,118,889	27,900,412
Outstanding					(1)

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

Balance Sheet Data	**May 31, 2006**	**May 31, 2005**	**May 31, 2004**	**May 31, 2003**	**May 31, 2002**
(as at Period end)	$	$	$	$	$
Current Assets	35,841,573	8,658,888	21,342,820	4,465,048	8,783,318
Capital Assets	50,663	60,859	41,472	37,050	47,087
Intangible Assets	-	-	-	-	-
Total Assets	35,892,236	8,719,747	21,384,292	4,502,098	8,830,405
Total Liabilities	1,644,339	2,732,754	817,575	353,908	389,663

Net Assets	34,247,897	5,986,993	20,566,717	4,148,190	8,440,742
Capital Stock and Contributed Surplus	99,542,138	57,105,431	56,459,161	33,818,449	32,855,388
Deficit Accumulated During the Development Stage	(65,294,241)	(51,118,438)	(35,892,444)	(29,670,259)	(24,414,646)
Statement of Operations					
Gross Revenue	299,737	394,784	445,461	241,281	183,912
Loss from Continuing Operations	(14,175,800)	(15,225,994)	(6,222,185)	(5,255,613)	(4,319,237)
Net Loss for the Period	(14,175,800)	(15,225,994)	(6,222,185)	(5,255,613)	(4,319,237)
Basic and Diluted Loss per Share	(0.19)	(0.23)	(0.11)	(0.14)	(0.15)
Weighted-Average Number of Common Shares Outstanding	75,144,764	66,717,715	55,738,716	37,118,889	27,900,412 (1)

Note 1: Includes 1,280,000 Class A common shares outstanding. On March 1, 2003 all of the Corporation s issued and outstanding Class A common shares totalling 1,280,000 shares were converted into common shares of the Corporation on the basis of one common share for each Class A common shares in accordance with the Corporation s Articles of Continuance. Prior to the conversion, the Class A common shares were identical in all respects to the common shares, except that the holders were eligible for the Manitoba Equity Tax Credit until February 28, 2003.

Comparability of Data

On November 22, 1999, Lariat acquired all of the issued and outstanding common shares of Medicure in consideration for the issuance of 9,500,000 common shares of Lariat. As control of Lariat passed to the former shareholders of Medicure resulting in a reverse acquisition, Medicure is deemed to be the acquirer for accounting purposes. Accordingly, the net assets of Medicure are included in the balance sheet at their book values and the deemed acquisition of Lariat is accounted for by the purchase method with the net assets of Lariat recorded at their fair value at the date of acquisition.

The selected financial data for the fiscal years ended May 31, 2006, 2005, 2004, 2003 and 2002 includes the operations of Medicure International Inc., a Barbados corporation (Medicure International), commencing June 1, 2000. The selected financial data for the year ended May 31, 2002 includes the operations of Medicure commencing September 1, 1999 combined with the activities of Lariat beginning on November 22, 1999, the effective date of the reverse takeover.

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 to render the Corporation 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.

	May 31, 2006	May 31, 2005	May 31, 2004	May 31, 2003	May 31, 2002
Period End	0.9079	0.7967	0.7335	0.7307	0.6545
Average	0.8588	0.7978	0.7453	0.6569	0.6380

	June 2006	May 2006	April 2006	March 2006	February 2006	January 2006
High for Month[(1)]	0.9122	0.9134	0.8959	0.8850	0.8809	0.8794
Low for Month[(1)]	0.8857	0.8869	0.8496	0.8513	0.8610	0.8479

Notes:
(1) Figures are extracted from daily exchange rates

As of June 30, 2006, the exchange rate to convert one Canadian dollar into the U.S. dollar was 0.8959.

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.

We are a development stage company and we expect to continue to incur substantial losses and may never achieve profitability, which in turn may harm our future operating performance and may cause the market price of our stock to decline.

With the exception of Aggrastat® (see Item 4(B)), 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 and as of May 31, 2006, had an accumulated deficit of $46,127,566. The Corporation incurred net losses of $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, $4,193,688 for the year ended May 31, 2003 and $3,875,087 for the year ended May 31, 2002. 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, and will be directly related to the success of its research and development activities which depend on numerous factors, including the following:

a) the success of the Corporation s research and development activities, including the Corporation s drug discovery, preclinical and clinical development programs;

b) obtaining Canadian and United States regulatory approvals to market MC-1 and MC-4232, the Corporation s 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;

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d) the ability to successfully prosecute and defend our patents and other intellectual property further to an overall commercially viable patent and intellectual property strategy; and
e) the ability to successfully market the Corporation s products including the Corporation s launch of Aggrastat® Injection (tirofiban hydrochloride), given that it has no 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 our 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 our current and future therapeutic products in one or more significant markets may adversely affect our 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 (see Item 4(B)). The Corporation may never have another commercially viable drug product approved for marketing. To obtain regulatory approvals for the Corporation s 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, has not entered 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, the Corporation 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 our leading product, MC-1 or our 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 the Corporation s 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 the Corporation 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) and Clinical Development Research Institute Inc. (CDRI) to perform for it a significant amount of our research and development activities. Because of the specialized scientific nature of the Corporation s business, the loss of services of CanAm or CDRI 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 the Corporation s 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 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 the Corporation s 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 the Corporation 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 the Corporation is unable to do so, its business, financial condition and results of operations may suffer.

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

The success of the Corporation 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 clinical and preclinical 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 with respect to certain products may negatively impact the Corporation's ability to commercialize those products and adversely affect the Corporation s 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 the Corporation becomes insolvent or breaches the terms and conditions of the licensing agreement, 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 the Corporation s 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 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 our borrowings upon an event of default or change of control. Such cash payments may leave us with little or no working capital in our business or make us insolvent.

In August, 2006, we entered into a term loan financing facility totalling approximately 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 Credit Facility). Under the Credit Facility, our lenders may require that the principal amount of the Credit Facility or that all or a portion of such principal amount be repaid in cash upon the occurrence of various 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 our common shares from trading on the TSX and Amex;
- the issuance of any judgments or orders against us 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 ours in an aggregate principal exceeding US$375,000;
- any breach of any term of the credit and security agreement under which the Credit Facility was extended;
- 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
- breach of certain financial covenants (including a requirement that a minimum additional working capital is required to be raised by the Corporation by March 31, 2007 through a collaborative partnership or equity issuance), including financial covenants the lenders deem the Corporation likely to fail under the Credit Facility for the next succeeding financial reporting period.

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. We have not established a sinking fund for payment of the Credit Facility, nor do we anticipate doing so.

Our substantial debt could impair our financial condition. We are highly leveraged and have substantial debt service obligations.

As of August 10, 2006, we had approximately US$15.84 million of principal indebtedness outstanding under the Credit Facility that bears interest at a floating rate. This substantial indebtedness could have important consequences for us. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- impair our ability to obtain additional financing in the future for working capital needs, capital expenditures or general corporate purposes;
- require us to dedicate a significant portion of our existing cash and proceeds from any future financing transactions to the payment of principal and interest on our debt, which would reduce the funds available for our operations;
- limit our flexibility in planning for, or reacting to, changes in the business and the industry in which we operate; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

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

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

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 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 the Corporation s products, it 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 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 the Corporation s 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 the Corporation s 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 the Corporation 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 the business, financial condition and future prospects of the Corporation. In addition, even if a product liability claim is not successful, adverse publicity and 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, the Corporation s competitive position will be adversely affected.

The success of the Corporation 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 18 United States patents as at May 31, 2006. 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 the Corporation s 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 the Corporation s 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 equivalent technology, disputes arise concerning the ownership of intellectual property or the Corporation's 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 and time consuming litigation.

The success of the Corporation 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 products or processes infringe the proprietary rights of third parties. However, despite the best efforts of the Corporation, it 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 the Corporation prevails. If it does not prevail, the Corporation may be required to stop the infringing activity or enter into a royalty or licensing agreement, in addition to any damages the Corporation 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 the Corporation, 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, and in the future may become, subject to additional stringent governmental regulations and if the Corporation is unable to comply with them, 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, the Corporation 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 clinical and preclinical product candidates in any jurisdiction; future clinical or preclinical results may be negative or insufficient to allow the Corporation 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 product candidates 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 three years or longer before our 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, the Corporation s 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 make public statements regarding timing of the accomplishment of objectives material to its success, such as the commencement and completion of clinical trials, anticipated 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 our 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 the Corporation s 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, we produce limited quantities of such products for the Corporation s 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, adversely affecting the Corporation s operations.

The Corporation has not to date generated any revenues from sales. The timing of generation of any sales is uncertain. 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 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.

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 ability of the Corporation to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Corporation. If the Corporation s capital resources are exhausted and adequate funds are not available, it 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 the Corporation to relinquish rights to certain of its technologies or products.

Future issuance of the Corporation s common shares will result in dilution to 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 the Corporation s shareholders.

As of May 31, 2006, the Corporation had 96,046,465 common shares issued and outstanding. A further 3,300,028 common shares are issuable upon exercise of outstanding stock options and another 6,706,860 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 of the common shares issued and outstanding as of May 31, 2006. Under the plan the Corporation is able to grant an additional 2,954,667 share options as at May 31, 2006. 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 the shareholders of the Corporation.

On May 31, 2006, the Corporation s common shares closed at a price of $1.70 (US$1.59 on the Amex). For the period from June 1, 2005 to May 31, 2006, the high and low trading prices of the Corporation s common shares on the TSX were $2.37 and $0.83, respectively, with a total trading volume of 71,417,100 shares. For the period from June 1, 2005 to May 31, 2006, the high and low trading prices of the Corporation s common shares on the Amex were US$2.07 and US$0.66, respectively, with a total trading volume of 21,498,300.

Daily trading volume on the TSX in the Corporation s common stock for the period from June 1, 2005 to May 31, 2006 has fluctuated, with a high of 4,283,000 shares and a low of 12,300 shares, averaging approximately 283,401 shares. Daily trading volume on the Amex in the Corporation s common stock for the period from June 1, 2005 to May 31, 2006 has fluctuated with a high of 3,207,600 and a low of nil, averaging approximately 85,311. Accordingly, the trading price of the Corporation s common stock 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 the Corporation s products, competition by new products or new innovations, fluctuations in the operating results of the Corporation, 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;
- 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 the Corporation s common shares is not active.

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

Sales of substantial numbers of the Corporation s common shares could cause a decline in the market price of the 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 the common shares.

We may be unable to meet our obligations under our outstanding Credit Facility.

As of August 10, 2006, 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 instalments. There is no guarantee that the Corporation will have adequate resources to meet these obligations on a timely basis.

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 stock and does 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 2005 taxable year and the Corporation believes there is a significant likelihood that it will be classified as a PFIC in the 2006

taxable year and possibly in subsequent years. Our classification as a PFIC could have significant and adverse tax consequences for United States holders of the Corporation s 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 Taxation 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 its shareholders of a control premium that might otherwise be realized in connection with an acquisition of the common shares.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Lariat was incorporated by Certificate of Incorporation issued pursuant to the provisions of the *Business Corporations Act* (Alberta) on June 3, 1997. On February 11, 1999, by Certificate of Amendment and Registration of Restated Articles, the Articles of Lariat were amended to remove the private company restriction. Lariat was formed as a Junior Capital Pool company, as defined by, and under the rules of the Alberta Stock Exchange with the expressed intent of acquiring a project or company through a reverse take over. With the exception of this intent and the associated search for potential acquisitions, Lariat had no substantial prior business activities.

Medicure was incorporated by Certificate of Incorporation issued pursuant to the provisions of *The Corporations Act* (Manitoba) on September 15, 1997. Medicure was continued from Manitoba to Alberta by Certificate of Continuance issued pursuant to the provisions of the *Business Corporations Act* (Alberta) on December 3, 1999. On December 22, 1999, Medicure and Lariat were amalgamated by Certificate of Amalgamation issued pursuant to the provisions of the *Business Corporations Act* (Alberta) as Medicure Inc. 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.

Medicure was formed as a private Manitoba company to advance the discoveries of Dr. Naranjan Dhalla of the University of Manitoba. Dr. Dhalla and Dr. Albert Friesen were the principal owners of the corporation as first formed, together with certain other individuals who contributed to the project. The first order of business was the completion of a licensing agreement to acquire the technology rights from the University of Manitoba, which owned the technology by virtue of the fact that it was invented by employees of the University. From that date until the merger with Lariat, the Corporation's primary focus was on the preclinical testing and development of the lead product, identified as MC-1. In 1998 other research involving synthesis and testing of other potential therapeutics was commenced through a research contract with the University of Manitoba. Various business activities were conducted in support of these primary research projects including but not limited to; (1) the application for and approval of government sponsored research awards, (2) the search for alternative sources of investment capital to fund operations, and (3) the ongoing search for other potential therapeutics. Business and administrative functions were handled by Genesys Venture Inc., a consulting corporation, that at the time, was owned entirely by Dr. Friesen. Operations and research, until the merger, were primarily funded by Dr. Friesen, with assistance from government grants. On November 22, 1999 Medicure was acquired by Lariat by way of a reverse takeover as Lariat s Major Transaction as a Junior Capital Pool company within the meaning of the Alberta Securities Commission Rule 46-501, the Alberta Securities Commission Companion Policy 46-501CP and The Alberta Stock Exchange Circular 7. Pursuant to the terms of the Major Transaction, Lariat acquired all of the issued and outstanding shares of Medicure in exchange for 9,500,000 shares of Lariat, at a deemed price for securities regulatory purposes only of $0.20 per share for aggregate

deemed value of $1,900,000. The Major Transaction was negotiated entirely at arm s length. As a result of the share exchange, control of Lariat passed to the former shareholders of Medicure. This type of transaction is commonly referred to as a reverse takeover . Under reverse takeover accounting, for financial reporting purposes, the Corporation is considered to be a continuation of the operations formerly carried on by Medicure.

The Corporation s current legal and commercial name is Medicure Inc. and its current registered office is 30 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.

The MC-1 technology was originally licensed to Genesys Pharma Inc. by the University of Manitoba, on August 18, 1997. Genesys Pharma Inc., which had made a small investment on some preliminary research, transferred the technology without cost, except for costs designated in the license, to Medicure Inc. on September 26, 1997. On August 30, 1999 Medicure Inc. completed a new license agreement with the University of Manitoba in order to slightly modify the terms of the original license agreement transferred from Genesys Pharma Inc., and to have the documentation properly prepared in the Corporation s own name.

On June 1, 2000 the Corporation licensed the world-wide development and marketing rights (except for Canada) for MC-1, the Corporation s lead product, to the Corporation s wholly owned subsidiary, Medicure International Inc.. Medicure International Inc. then entered into a development agreement with CanAm to perform research and development on 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 agreement have agreed that the aggregate amount of all invoiced expenditures shall not exceed $30,000,000 over the term of the agreement. CanAm is a private Canadian company owned by Marcus Enns, a former employee of the Corporation and Peter de Visser, a former director of the Corporation. Peter de Visser resigned as a director of the Corporation in December 2001.

On July 2, 2004, Medicure International Inc. also entered into a development agreement with CDRI to perform clinical development on 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 agreement have agreed that the aggregate amount of all invoiced expenditures shall not exceed $30,000,000 over the term of the agreement. CDRI is a private Canadian company owned by Jim Charlton, a former employee of the Corporation.

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 plus inventory. 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. 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 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 Company including intellectual property.

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. There is currently an aggregate of 39 full time scientific researchers and support staff who are retained as employees by CanAm and CDRI who are performing the Corporation s scientific research pursuant to the development agreements.

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 our clinical product candidates, their therapeutic focus and their stage of development.

Product Candidate	*Therapeutic focus*	*Stage of Development*
MC-1	Coronary Artery Bypass Graft Surgery	Phase II complete
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.

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). 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). Aggrastat® was not being actively promoted at the time of acquisition. The Corporation plans to launch product sales and marketing efforts, with a targeted, dedicated cardiovascular sales force and medical science liaison organization in the first half of fiscal 2007. Aggrastat® is complimentary to the Corporation s cardiovascular strategy and provides the Corporation 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.

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 ?????100ng/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.

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, 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 71.3 million people.[1] According to the *American Heart Association*, approximately one in three Americans have some form of cardiovascular disease. In 2003, cardiovascular disease was the underlying or contributing causein 58% of all deaths in the United States.[2]

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 appropriate disease model, (3) in vivo toxicity screening, (4) dose response confirmation of efficacy testing in vivo, (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, 2006, the Corporation had 18 issued United States patents: United States Patent No. 5,504,090, United States Patent No. 5,733,916, United States Patent No. 6,001,842, United States Patent No. 6,051,587, United States Patent No. 6,043,259, United States Patent No. 6,339,085, United States Patent No. 6,417,204, United States Patent No. 6,489,345, United States Patent No. 6,548,519, United

[1] *American Heart Association,* Heart Disease and Stroke Statistics - 2006 Update.

[2] *Health Canada,* Heart Disease and Stroke in Canada, 1997, Chapter 2.1.

States Patent No. 6,586,414, United States Patent No. 6,605,612, United States Patent No. 6,677,356, United States Patent No. 6,667,315, United States Patent No. 6,780,997, United States Patent No. 6,861,439, United States Patent No. 6,867,215, United States Patent No. 6,890,943 and United States Patent No. 6,897,228.

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 (2003 US sales estimated at US$2.8 billion), Angiotensin II Inhibitors (2003 US sales estimated US$2.1 billion), oral anti-platelets (2003 US sales estimated US$2.4 billion), Beta-Blockers (2003 US sales estimated at US$1.6 billion), and Calcium Channel Blockers (2003 US sales estimated at US$4.4 billion), each class has particular benefits as well as an array of alternative products.[3] 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

As there remains unmet needs for treatment of certain forms of cardiovascular disease and stroke, management of the Corporation believes there is room for an increased number of novel research products.

[3] Sales estimates provided by *IMS Health Data*, 2003.

The *Pharmaceutical Researchers and Manufacturers of America* have identified 146 separate products in development for heart disease and stroke in their 2005 Survey: Medicines in Development for Heart Disease and Stroke. A large proportion of products in development are modifications of existing therapeutic classes or new indications for drugs already on the market.

The Corporation s clinical trials for MC-1 focus on ischemia and ischemic reperfusion injury for cardiovascular diseases and will also focus on stroke. The following tables provide an overview of many of the competitors products in development pertaining to Percutaneous Coronary Intervention (PCI) or angioplasty, CABG, ACS and stroke:

PCI: Products in Development[4]

Product Name	Sponsor	Development Status
Cangrelor	The Medicines Company	Phase III
DX9065a	Daiichi Pharmaceutical	Phase II
SCH 530348	Schering-Plough	Phase II

CABG: Products in Development[5]

Product Name	Sponsor	Development Status
Angiomax ® (bivalirudin)	The Medicines Company	Phase III
DX-88	Dyax	Phase I/II completed
Integrilin ® (eptifibatide)	Schering-Plough / Millennium Pharmaceuticals	Phase II
MLN2222	Millennium Pharmaceuticals / XOMA	Phase I
TP-10	AVANT Immunotherapeutics	Phase II

ACS: Products in Development[6]

Product Name	Sponsor	Development Status
Angiomax ® (bivalirudin)	The Medicines Company	Phase III
Arixtra ® (fondaparanix)	GlaxoSmithKline	Phase III
AZD6140	AstraZeneca	Phase III
Cangrelor	The Medicines Company	Phase II
DX9065a	Daiichi Pharmaceutical	Phase II
Prasugrel	Eli Lilly / Sankyo Pharma	Phase III
Ranexa (Ranolazine)	CV Therapeutics	Phase III
rNAPc2	Nuvelo	Phase II

SR123781	Sanofi-Aventis	Phase IIb
VT-111	Viron Therapeutics	Phase II
VX-702	Vertex Pharmaceuticals	Phase II
Vytorin ® (ezetimibe / simvastatin)	Schering-Plough / Merck	Phase III
XRP0673 (otamixaban)	Sanofi-Aventis	Phase II

[4] *Pharmaceutical Researchers and Manufacturers of America*, Survey: New Medicines in Development for Heart Disease and Stroke 2005; company websites.

[5] *Pharmaceutical Researchers and Manufacturers of America*, Survey: New Medicines in Development for Heart Disease and Stroke 2005; company websites.

[6] *Pharmaceutical Researchers and Manufacturers of America*, Survey: New Medicines in Development for Heart Disease and Stroke 2005; company websites.

Stroke: Products in Development[7]

Product Name	Sponsor	Development Status
234551	GlaxoSmithKline / Shionogi USA	Phase I
737004 / S-0139	GlaxoSmithKline / Shionogi USA	Phase I
Dabigatran etexilate	Boehringer Ingelheim	Phase III
Desmoteplase	Forest Laboratories / Paion	Phase II/III
LJP 1082	La Jolla Pharmaceutical	Phase I/II
ONO-2506	Merck / ONO Pharma USA	Phase II
ReoPro ® (abciximab)	Centocor / Eli Lilly	Phase III
Viprinex (ancrod)	Neurobiological Technologies	Phase III

Some of the products set forth above have the advantage of being further along in development than the Corporation s products. However, market share for new products depends primarily upon the relative strengths of a product in areas such as safety, effectiveness, cost, and dose form.

It is noted that cardiovascular drugs are often prescribed together and therefore products do not necessarily compete for use on an individual patient. MC-1 s use in many indications is expected to be as adjunct therapy, that is, it will be given together with other therapeutics. Historically, the challenge of competing with earlier products has not acted as a significant barrier to entry for new products, provided that the new product has some advantage relative to earlier products.

The Corporation s second clinical candidate, MC-4232, is being developed for the treatment of diabetic patients with hypertension. 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. To date, only one combination product has been developed to address both hypertension and a metabolic function. This product is Caduet ®, a combination of the calcium channel blocker Norvasc ® and the statin Lipitor ®. Caduet ® was approved in 2004. The Pharmaceutical Research and Manufacturers of America Survey of New Medicines in Development for Heart Disease and Stroke 2005 does not identify any other products in development that are taking this approach. While Caduet ® targets hypertension and lipid lowering (primarily LDL cholesterol lowering), it does not address specific metabolic dysfunctions (such as elevated HbA1C) faced by the diabetic population.

The market for management of high blood pressure is one of the largest in the pharmaceutical industry but is also one of the most competitive. Approximately 50 million Americans are affected by hypertension (*American Heart Association*). *Decision Resources* expects hypertension drug global sales to reach US $22 billion by 2008. The following table presents a list of competitors products on the market pertaining to hypertension.

STANDARD OF CARE PHARMACOLOGICAL TREATMENTS FOR HYPERTENSION[8]

Product	Company	Type of Drug
	Pfizer	ACE inhibitor

Accupril ® (quinapril hydrochloride)		
Aceon ® (perindopril erbumine)	Solvay Pharmaceuticals	ACE Inhibitor
Altace ® (ramipril)	Monarch (King)	ACE Inhibitor
Capoten ® (captopril)	Par Pharmaceuticals	ACE inhibitor
Lotensin ® (benazepril hydorchloride)	Novartis	ACE inhibitor
Mavik ® (trandolopril)	Abbott Laboratories	ACE inhibitor
Monopril ® (fosinopril sodium)	Bristol-Myers Squibb	ACE inhibitor
Vasotec ® (enalapril maleate)	Merck	ACE inhibitor

[7] *Pharmaceutical Researchers and Manufacturers of America*, Survey: New Medicines in Development for Heart Disease and Stroke 2005; company websites.

[8] Company websites.

Product	Company	Type of Drug
Zestril ® (lisinopril)	AstraZeneca	ACE inhibitor
Atacand ® (candesartan cilexetil)	AstraZeneca	ARB
Avapro ® (irbesartan)	Bristol-Myers Squibb	ARB
Benicar ® (olmesartan medoxomil)	Forest Laboratories	ARB
Cozaar ® (losartan potassium)	Merck	ARB
Diovan ® (valsartan)	Novartis	ARB
Micardis ® (telmisartan)	Boehringer Ingelheim	ARB
Teveten ® (eprosartan mesylate)	Biovail	ARB
Corgard ® (nadolol)	King Pharmaceuticals	Beta blocker
Inderal ® (propranolol hydrochloride)	AstraZeneca	Beta blocker
Lopressor ® (metoprolol tartrate)	Novartis	Beta blocker
Sectral ® (acebutolol hydrochloride)	Dr. Reddy s Laboratories	Beta blocker
Tenormin ® (atenolol)	AstraZeneca	Beta blocker
Toprol-XL ® (metoprolol succinate)	AstraZeneca	Beta blocker
Covera-HS ® (verapamil hydrochloride)	Pfizer	Calcium channel blocker
Norvasc ® (amlodipine besylate)	Pfizer	Calcium channel blocker
Plendil ® (felodipine)	AstraZeneca	Calcium channel blocker
Procardia ® (nifedipine)	Pfizer	Calcium channel blocker
Sular ® (nisoldipine)	First Horizon	Calcium channel blocker
Tiazac ® (diltiazem hydrochloride)	Forest Laboratories	Calcium channel blocker
Verelan ® (verapamil hydrochloride)	Elan Pharmaceuticals	Calcium channel blocker
Thalitone ® (chlorthalidone)	King Pharmaceuticals	Diuretic
Aldactone ® (spironolactone)	Pfizer	Diuretic / antihypertensive
Aldactazide ® (spironolactone; hydrochlorothiazide)	Pfizer	Diuretic / antihypertensive
Lexxel ® (enalapril maleate; felodipine)	AstraZeneca	Calcium channel blocker / ACE inhibitor
Lotrel ® (amlodipine; benazepril)	Novartis	

		Calcium channel blocker / ACE inhibitor
Tarka ® (trandolapril; verapamil hydrochloride)	Abbott Laboratories	Calcium channel blocker / ACE inhibitor
Accuretic ® (quinapril HCl; hydrochlorothiazide)	Pfizer	ACE inhibitor / diuretic
Lotensin HCT ® (benazepril hydrochloride; hydrochlorothiazide)	Novartis	ACE inhibitor / diuretic
Monopril HCT ® (fosinopril sodium; hydrochlorothiazide)	Bristol-Myers Squibb	ACE inhibitor / diuretic
Zestoretic ® (lisinopril; hydrochlorothiazide)	AstraZeneca	ACE inhibitor / diuretic
Avalide ® (irbesartan; hydrochlorothiazide)	Bristol-Myers Squibb	ARB / diuretic
Benicar HCT ® (olmesartan medoxomil; hydrochlorothiazide)	Forest Laboratories	ARB / diuretic
Diovan HCT ® (valsartan; hydrochlorothiazide)	Novartis	ARB / diuretic
Hyzaar ® (losartan potassium; hydrochlorothiazide)	Merck	ARB / diuretic
Teveten HCT ® (eprosartan mesylate)	Biovail	ARB / diuretic
Corzide ® (nadolol; bendroflumethiazide)	King Pharmaceuticals	Beta blocker / diuretic
Lopressor HCT ® (metoprolol tartrate; hydrochlorothiazide)	Novartis	Beta blocker / diuretic
Tenoretic ® (atenolol; chlorthalidone)	AstraZeneca	Beta blocker / diuretic

The market for oral diabetic drugs was $5 billion in the US for 2002 (*IMS Health Data, Diabetes Therapy Report, 2004*). This is the largest drug class within the diabetic market, and had the highest compound annual growth rate between 1998 and 2002.

STANDARD OF CARE PHARMACOLOGICAL TREATMENTS FOR TYPE 2 DIABETES[9]

Product	Company	Type of Drug
Glucophage ® (metformin hydrochloride)	Bristol-Myers Squibb	Biguanide
Riomet ® (liquid metformin hydrochloride)	Ranbaxy Laboratories	Biguanide
Starlix ® (nateglinide)	Novartis	Meglitinide
Prandin ® (repaglinide)	Novo Nordisk	Meglitinide
Amaryl ® (glimepiride)	Sanofi-Aventis	Sulfonylurea
Glucotrol ® (glipizide)	Pfizer	Sulfonylurea
Diabinese ® (chlorpropamide)	Pfizer	Sulfonylurea
Orinase ® (tolbutamide)	Pfizer	Sulfonylurea
Glynase PresTab ® (micronized glyburide)	Pfizer	Sulfonylurea
Actos ® (pioglitazone hydrochloride)	Takeda Pharmaceuticals / Eli Lilly	Thiazolidinedione
Avandia ® (rosiglitazone maleate)	GlaxoSmithKline	Thiazolidinedione
Precose ® (acarbose)	Bayer	Alpha-glucosidase inhibitor
Glyset ® (miglitol)	Bayer	Alpha-glucosidase inhibitor
Byetta ® (exenatide)	Amylin / Eli Lilly	Incretin mimetic
Symlin ® (pramlintide acetate)	Amylin	Amylin analog
Glucovance ® (metformin hydrochloride; glyburide)	Bristol-Myers Squibb	Biguanide / sulfonylurea
Metaglip ® (metformin hydrochloride; glipizide)	Bristol-Myers Squibb	Biguanide / sulfonylurea
Avandamet ® (metformin hydrochloride; rosiglitazone maleate)	GlaxoSmithKline	Biguanide / thiazolidinedione

The market for drugs to manage hypertriglyceridemia includes fibric acid derivatives (total US sales of $0.7 billion in 2003), statins (total US sales of $13.7 billion in 2003), and niacin (total US sales of $0.3 billion in 2003) (*IMS Health Data*).

STANDARD OF CARE PHARMACOLOGICAL TREATMENTS FOR HYPERTRIGLYCERIDEMIA[10]

Product	Company	Type of Drug
TriCor ® (fenofibrate)	Abbott Laboratories	Fibric acid derivative

Lopid ® (gemfibrozil)	Pfizer	Fibric acid derivative
Lipitor ® (atorvastatin calcium)	Pfizer	Statin
Zocor ® (simvastatin)	Merck	Statin
Crestor ® (rosuvastatin calcium)	AstraZeneca	Statin
Niaspan ® (niacin)	KOS Pharmaceuticals	Niacin

The Corporation has recently purchased the U.S. sales and marketing rights to Aggrastat® Injection (tirofiban hydrochloride). Aggrastat® is a GP IIb/IIIa receptor antagonist which is approved for ACS. Recent figures indicate that U.S. sales of Aggrastat® Injection in the 12 months to May 2006 were $10.8 million (*IMS Health Data*). Other products currently on the market for the management of ACS are outlined in the table below:

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[9] *American Diabetes Association*, Position Statement: Standards of Medical Care in Diabetes, 2005; company websites.

[10] *American Association of Clinical Endocrinologists*, Medical Guidelines for Clinical Practice for the Diagnosis and Treatment of Dyslipidemia and Prevention of Atherogenesis, 2000.

STANDARD OF CARE PHARMACOLOGICAL TREATMENTS FOR ACS[11]

Product	Company	Type of Drug
Nitroglycerin	Pfizer	Anti-ischemic
Lopressor ® (metoprolol tartrate)	Novartis	Beta-blocker
Inderal ® (propanolol hydrocholride)	AstraZeneca	Beta-blocker
Tenormin ® (atenolol)	AstraZeneca	Beta-blocker
Covera-HS ® (verapamil hydrochloride)	Pfizer	Calcium channel blocker
Aspirin (acetylsalicylic acid)	Bayer	Antiplatelet
Plavix ® (clopidogrel bisulfate)	Bristol-Myers Squibb / Sanofi-Synthelabo	ADP receptor antagonist
Ticlid ® (ticlopidine hydrochloride)	Roche	ADP receptor antagonist
Lovenox ® (enoxaparin sodium)	Sanofi-Aventis	Anticoagulant
Fragmin ® (dalteparin sodium)	Pfizer	Anticoagulant
Integrilin ® (eptifibatide)	Schering-Plough / Millenium Pharmaceuticals	GP IIb/IIIa receptor antagonist
ReoPro ® (abciximab)	Centocor / Eli Lilly	GP IIb/IIIa receptor antagonist

Due to new product developments and potential clinical and preclinical findings, the above tables may not be inclusive of all competitors products.

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.

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,

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[11] *American College of Cardiology/American Heart Association*, Guideline Update for the Management of Patients with Unstable Angina and Non-ST-Segment Elevation Myocardial Infarction, 2002.

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, 2006, Medicure Pharma Inc., American Cardio Therapeutics Inc. and Medicure Europe Limited were 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 Exchange Commission regarding the Corporation's periodic reports under that Act during the fiscal year ended May 31, 2006 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, 2006, May 31, 2005 and May 31, 2004 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 differences between Canadian and U.S. GAAP, as applicable to the Corporation, are set forth in note 10 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 10 to the audited consolidated financial statements for the year ended May 31, 2006. 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 research and development, the assessment of net recoverable value of intangible assets, and stock-based compensation.

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.

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 its economic life, if shorter. The cost of servicing the Corporation s patents is expensed as incurred. Technology licenses, which include licenses and rights to technologies, are initially recorded at fair value based on consideration paid and amortized on a straight-line basis over the estimated useful life of the underlying technologies. 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 Corporation expects to derive from the costs incurred to date and the ongoing development plans. Management has reviewed the carrying value of its intangible assets and no adjustment was made to the capitalized costs.

Refundable investment tax credits
The Corporation incurs research and development expenditures, which are eligible for refundable investment tax credits. The investment tax credits are based on management's estimates of amounts to be recovered. As the investment tax credits are subject to audit by the taxation authorities, the actual amounts received may vary materially from the estimate recognized. Any adjustments to amounts accrued are recognized as determinable.

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 2006 of $745,570 (2005 - $504,878; 2004 - $386,048).

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 general operations. 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 development stage company 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 commence Phase III clinical trials 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 quarter of fiscal 2008.

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.

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 Medicure 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.

Year Ended May 31, 2005 Compared to the Year Ended May 31, 2004

Interest and other income for fiscal 2005 totaled $395,000 as compared to $445,000 for fiscal 2004. Interest and other income in fiscal 2005 is slightly higher than fiscal 2004. Interest and other income in fiscal 2005 is lower than fiscal 2004 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 increased to $13,564,000 in fiscal 2005 as compared to $4,435,000 for fiscal 2004 and represent 89% of the Corporation s total expenditures in fiscal 2005. As expected, research and development expenditures were higher as compared to the same periods in fiscal 2004 due to the ongoing Phase II/III Coronary Artery Bypass Graft (CABG) trial attributed to MC-1, called MEND-CABG and the Phase II MATCHED study with MC-4232.

The Corporation s 900 patient, MEND-CABG trial reached full enrollment in July 2005. The MEND-CABG study is a Phase II/III 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 Phase II portion of the trial is being conducted at approximately 40 cardiac centres throughout Canada and the US and is managed by Montreal Heart Institute and Duke Clinical Research Institute (DCRI). The study's primary efficacy parameter is the reduction in combined incidence of cardiovascular and cerebrovascular death, non-fatal myocardial infarction (heart attack) and non-fatal cerebral infarction (stroke), up to and including 30 days following CABG surgery. For the year ended May 31, 2005, total expenditures for the MEND-CABG trial were $8,788,000 as compared to $1,352,000 in fiscal 2004. The costs increased in direct relation to the increase in the number of clinical sites initiated in the study and the associated increase in the number of patients enrolled.

The Corporation will compile and analyze all efficacy and safety endpoints up to postoperative day 30 (POD 30), and plans on reporting these results in the fall of 2005. The secondary endpoint of postoperative day 90 (POD 90) will follow shortly thereafter.

The initiation of the MEND-CABG trial was based on the Phase II, MEND-1 trial, managed by Duke Clinical Research Institute, which showed that the Corporation's lead product, MC-1, reduces ischemic heart damage following angioplasty as determined by the release of the amount of the marker cardiac enzyme, CK-MB. 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 increase in research and development expenditures was also due to the clinical development program of MC-4232, a combination of MC-1 and an ACE Inhibitor. As part of the Phase II/III clinical development program of MC-4232, the Corporation is conducting the Phase II MATCHED study. The MATCHED study will evaluate MC-1 alone and in combination with an ACE inhibitor encompassing up to 120 patients with co-existing diabetes and hypertension. This study will assess effects on a variety of important parameters in diabetic hypertensive patients, including blood pressure and metabolic function. For the year ended May 31, 2005, total expenditures for the MATCHED trial were $1,731,000 as compared to $12,000 in fiscal 2004.

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 $2,256,000 for the year ended May 31, 2005, as compared to $1,958,000 for the year ended May 31, 2004. The overall increase in costs during the fiscal year ended May 31, 2005 as compared to the same period in fiscal 2004 is primarily driven by increased business development and investor relations activities, professional fees and stock-based compensation expense.

Foreign exchange gain for fiscal 2005 totaled $64,000 as compared to nil for fiscal 2005. The increase in the foreign exchange gain for the year ended May 31, 2005 is primarily a result of the strengthening 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 significant U.S. dollar denominated clinical trial costs incurred as a result of the MEND-CABG study.

Refundable investment tax credits for fiscal 2005 totaled $553,000 as compared to nil for fiscal 2004. As Medicure 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 reduction of research and development expenditures.

For the year ended May 31, 2005, the Corporation recorded a consolidated net loss of $14,866,000 or $0.22 per share compared to a consolidated net loss of $5,989,000 or $0.11 per share for the year ended May 31, 2004. As stated above, these results of operations were mainly attributable to the Corporation s clinical development program and the increased business development activity required to support the program. 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 66,717,715 for the year ended May 31, 2005 from 55,738,716 for the year ended May 31, 2004.

B. Liquidity and Capital Resources

Since inception, the Corporation has financed its operations from public and private sales of equity, the exercise of warrants and stock options, interest income on funds available for investment and government grants and tax credits.

Cash used in operating activities for fiscal 2006 was $12,678,000, compared to $12,068,000 for fiscal 2005. 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, and amortization of prepaid expenses.

Cash provided by financing activities in fiscal 2006 was $41,252,000, compared to $133,000 in fiscal 2005. The main sources of cash in fiscal 2006 were net proceeds from public and private placement financings of $40,957,000, compared to $nil in fiscal 2005.

On August 19, 2005, the Corporation raised net proceeds of $4,139,000 through a private placement. The placement resulted in the issuance to investors of 5,205,500 common shares and warrants to purchase an additional 2,602,750 common shares. The purchase price of the common shares was $0.90 per share, and the warrants are exercisable for a period of five years at an exercise price of $1.18 per share.

On January 4, 2006, the Corporation raised net proceeds of $10,858,000 through a public offering. A total of 7,750,000 common shares of the Corporation were issued at $1.55 per share.

On May 9, 2006, the Corporation raised net proceeds of $25,960,000 through a private placement. The Corporation issued 16,000,000 common shares at a price of US$1.60, together with warrants, to purchase 4,000,000 additional common shares. The warrants have a five-year term and an exercise price of US$2.10.

The Corporation also raised $252,000 from the exercise of stock options in fiscal 2006, compared to $133,000 in fiscal 2005.

Cash used in investing activities in fiscal 2006 was $1,244,000, compared to $429,000 in fiscal 2005. The increase of $815,000 was mainly due to an increase in patent costs and intangible assets.

As at May 31, 2006, the Corporation had cash and cash equivalents totaling $34,920,000 compared with $7,591,000 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, 2006 was 96,046,465 as compared to 66,826,660 at May 31, 2005.

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.

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. Ongoing research and development to find preliminary candidates currently costs the Corporation in excess of $1,000,000 per year.

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, 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.

At May 31, 2005, the Corporation had net working capital of $5,926,134 compared to net working capital of $20,525,245 at May 31, 2004. During the period ended August 19, 2005, no additional stock options were exercised.

The Corporation had no long-term debt as of May 31, 2006. Subsequent to May 31, 2006, the Corporation entered into the Credit Facility 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 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, 2006, the Corporation has expended approximately $36,579,000 net of government assistance and investment tax credits, which aggregate approximately $1,482,000, on the research and development of MC-1, MC-4232 and other compounds.

Patents and Licenses

The Corporation has been issued 18 patents from the United States Patent Office providing protection for certain uses of MC-1 and related compounds in treatment of cardiovascular disease. The Corporation has also filed 24 additional 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 18 patents issued to the Corporation are as follows:

Patent Number	Issue Date	Title
5,504,090	April 2, 1996	Compositions and methods for the prevention and treatment of ischemia-reperfusion organ injury
5,733,916	March 31, 1998	Prevention and treatment of ischemia- reperfusion and endotoxin-related injury using adenosine and purino receptor antagonists
6,001,842	December 14, 1999	Compositions and methods for use in ischemia-reperfusion and endotoxin-related tissue injury
6,043,259	March 28, 2000	Treatment of Cardiovascular and Related Pathologies
6,051,587	April 18, 2000	Treatment of Age Related Hypertension
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
6,548,519	April 15, 2003	5-AZA Analogues
6,586,414	July 1, 2003	Methods of Treating Stroke
6,605,612	August 12, 2003	Mimics of MC1
6,677,356	January 13, 2004	Combination
6,667,315	December 23, 2003	Mimics of MC1
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

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 and 6,339,085 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, and an ensuing new License Agreement dated August 30, 1999 (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 3% of net sales from any cardiovascular product derived from the MC-1 technology. The License Agreement commenced on August 30, 1999 and shall terminate:

(i) if a patent or patents are obtained prior to commercialization of a Licensed Product (as defined therein), on the expiration date of the last to expire of any patents covered by the Patent Rights (as defined therein); and

(ii) if a patent is not obtained prior to commercialization of a Licensed Product (as defined therein), on August 30, 2009.

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.

The 24 pending United States patent applications, including those filed with the United States Patent Office as either regular or provisional applications, 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.

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 Medicure 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 Medicure International Licensing Agreement may be 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 Medicure International Licensing Agreement.

Medicure 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 Medicure 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 Medicure 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 Medicure 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, 2006, 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, 2006:

	Total	**Less than 1 year**	**1-3 years**
Operating Lease Obligations	33,198	33,198	-
Purchase Obligations*	3,700,225	3,700,225	-
Other Long-term Obligations	66,000	66,000	-
Total	3,799,423	3,799,423	-

* The timing of expenditures and payments for research and development obligations is largely at the discretion of the Corporation and the agreements may be terminated at any time provided thirty (30) days notice is provided. The development agreements are described in more detail below.

The Corporation and its wholly-owned subsidiary, Medicure International Inc. 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. During the year ended May 31, 2006, the Corporation incurred an aggregate of $8,428,000 (2005 - $8,985,000) in expenditures under these agreements which is included in research and development expenses in the statement of operations. As at May 31, 2006, the Corporation is committed to fund a further $66,000 related to clinical research agreements with clinical research organizations (CROs) and clinical sites. The contracts with the CROs are payable over the terms of the trials and the 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. The Corporation is also liable for the payment of certain pass through costs. As part of these trials, the Corporation also entered into agreements with the clinical sites participating in the trials. These 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. A significant portion of the amounts due to the sites for these activities is not payable until after the completion of the trial. This holdback results in a significant accrual of trial-related expenses during the course of the study, as the expense is recognized for accounting purposes but the cash payment is not made until after the trial is completed. In addition, the Corporation has committed to fund a further $3,700,000 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 Corporation and the agreements may be terminated at any time provided thirty (30) days notice is provided. Subsequent to May 31, 2006, the Corporation amended development agreements with third parties such that a further $35,000,000 was committed to research and development expenditures. The commitment is not included in the table above.

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 Corporation has granted royalties to third parties based on future commercial sales of MC-1, aggregating up to 4.75% on net sales. To date, no royalties are due and/or payable.

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.

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, M.D., F.R.C.P. (C), F.R.S.C. has had a distinguished career within medicine and higher education. Dr. Naimark is currently Director of the University of Manitoba Centre for the Advancement of Medicine, founding Chair of the Canadian Health Services Research Foundation and of the Canadian Biotechnology Advisory Committee, a Director of Inspiraplex and of the Robarts Research Institute and is a member of the Research Council of the Canadian Institute for Advanced Research. Dr. Naimark served as Head of the Department of Physiology and later as Dean of the Faculty of Medicine at the University of Manitoba, following which he served as the University s President and Vice-Chancellor (15 years). Dr. Naimark has served on many committees and boards, in such positions as a 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 also received several honourary degrees and awards, including the Order of Canada.

Gerald P. McDole, Mississuaga, 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 Reckson Associates, 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 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 a Corporate Director. He is 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.

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. Mr. Westin provides his services through CDRI Inc, which conducts clinical development for Medicure through a dedicated development contract.

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.

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 will be 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. Mr. Westin provides his services to the Corporation's research and development activities through a consulting contract with CDRI Inc. (see Directors and Senior Management under this item).

Dr. Charles Gluchowski Vice-President, Research & Development

Dr. Gluchowski will be 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. Jim Diakur - Director of Chemistry

Dr. Diakur is an experienced medicinal chemist who was previously employed as Research Assistant Professor at the Noujaim Institute for Pharmaceutical Research in the Faculty of Pharmacy, University of Alberta. At the institute, Dr. Diakur s group was focused on the development of carbohydrate-based

pharmaceuticals for diabetes, cancer and inflammation and on carbohydrate-based drug carriers for targeted drug delivery. He also has over ten years of industrial research and management experience in the field of chemistry with Chembiomed Inc. and Biomira Inc. Among other achievements, Dr. Diakur managed a team of scientists responsible for the preclinical development of injectable carbohydrate-based immunotherapeutic agents. Dr. Diakur is employed by CanAm Bioresearch Inc. and works on the Corporation s research and development pursuant to the Development Agreement.

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 Al*viva* Biopharmaceutical Inc. Dr. Douglas provides her services to Medicure through an employment agreement with CanAm Bioresearch Inc.

Dr. Marjorie Zettler Director of Scientific Affairs

Dr. Zettler received her Ph.D. in Physiology from the University of Manitoba. Her research, which was carried out in the Division of Stroke and Vascular Disease at the St. Boniface Research Centre, focused on mechanisms of cardiovascular disease progression. Dr. Zettler has authored several peer-reviewed papers and is the recipient of numerous research awards. Dr. Zettler provides her services to Medicure through an employment agreement with CDRI Inc.

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.

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, 2006, except 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 and October 1,

2005. For the year ended May 31, 2006, the Corporation paid A.D. Friesen Enterprises Ltd., $191,667 in consulting compensation. Dr. Friesen is also 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 $158,333 payable in equal semi-monthly instalments in fiscal 2006.

Dawson Reimer serves the Corporation as Vice President, Operations and received a salary of $84,167 payable in equal semi-monthly instalments in fiscal 2006.

Derek G. Reimer serves the Corporation as Chief Financial Officer and Secretary and received a salary of of $108,333 payable in equal semi-monthly installments in fiscal 2006.

During the year ended May 31, 2006, the Corporation paid directors a total of Nil (Year ended May 31, 2005: Nil; Year ended May 31, 2004: Nil; Year ended May 31, 2003: Nil; Year ended May 31, 2002: 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.

C. Board Practices

The Board of Directors presently consists of five directors. Three directors were at the Corporation s annual and special meeting of the shareholders held on October 25, 2005. 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 has 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. On June 29, 2005, James G. Umlah resigned as a member of its board of directors due to increasing business commitments. Peter Quick was appointed on November 29, 2005 and Kishore Kapoor was appointed on June 28, 2006, subject to regulatory approval.

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 members of 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 our website at 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 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, 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.

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;

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.

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.

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 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.

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 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 our website at www.medicure.com.

D. Employees

In addition to the individuals disclosed in Section A. Directors and Senior Management of this item, CanAm and CDRI have a combined staff of 39 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, 2006.

Title of Class	*Identity of Person or Group*	*Amount Owned*	*Percentage of Class*
Common shares	Dr. Albert D. Friesen[(1)]	7,662,099[(1)]	7.98%
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	29,500	0.03%
Common shares	Moray Merchant	Nil	Nil
Common shares	Dawson Reimer	199,735	0.20%
Common shares	Jan-Ake Westin	Nil	Nil
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, 2006. The stock options are for shares of Common Stock of the Corporation.

Name of Person	Number of Shares Subject to Issuance	Exercise Price per Share	Expiry Date
Dr. Albert D. Friesen	100,000 150,000	$1.63 $1.65	January 5, 2009 December 6, 2015
Dr. Arnold Naimark	100,000 50,000 35,000	$1.10 $1.10 $1.65	December 15, 2007 August 12, 2008 December 6, 2015
Gerald P. McDole	100,000 75,000	$1.63 $1.65	January 16, 2009 December 6, 2015
Peter Quick	100,000	$1.65	December 6, 2015
Kishore Kapoor	Nil	N/A	N/A
Derek G. Reimer	90,000 30,000 45,000	$0.80 $1.63 $1.65	February 4, 2007 January 5, 2009 December 6, 2015
Moray Merchant	100,000 100,000 25,000	$1.65 $1.12 $1.65	September 22, 2008 August 23, 2009 December 6, 2015
Dawson Reimer	20,000 30,000 65,000	$1.10 $1.63 $1.65	August 12, 2008 January 5, 2009 December 6, 2015
Jan-Ake Westin	Nil	N/A	N/A
Dr. Charles Gluchowski	Nil	N/A	N/A

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, 2006, 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 brokerage clearing house that owns 74,214,997 (77.3%) 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.

Title of Class	*Identity of Person or Group*	*Amount Owned*	*Percentage of Class*
Common shares	Dr. Albert D. Friesen[2] Winnipeg, Manitoba	7,662,099[1]	7.98%

Notes:

(1) Amount of shares as of May 31, 2006.
(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 19, 2006, there were 1,170 shareholders of record in the United States holding a total of 14,964,840 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, 2006, 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 7,901,334 (or 8.23% 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. 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, 2006, the Corporation paid a total of $191,667 to A.D. Friesen Enterprises Ltd. During the year ended May 31, 2005, the Corporation paid a total of $175,000 to A.D. Friesen Enterprises Ltd. For the year ended May 31, 2004, the Corporation paid a total of $166,667 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 2006, $25,763 was paid in excess of minimum rental payments for overhead costs. The agreement is for a five year term, expiring on February 28, 2007.

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.

C. Interests of Experts and Counsel

Not applicable

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements or Other Financial Information

Financial Statements

Attached hereto are the consolidated financial statements of the Corporation for the years ended May 31, 2006, 2005 and 2004. The consolidated financial statements including related notes are accompanied by the report of our 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

Since May 31, 2006, the date of the most recent financial statements, no significant changes have occurred with the exception of the following:

In August 2006, the Corporation acquired the rights to Aggrastat® Injection (tirofiban hydrochloride) in the United States and its territories (Puerto Rico, Virgin Islands, and Guam) for total cash consideration of US$19 million plus inventory from MGI Pharma Inc. Aggrastat®, a glycoprotein (GP) IIb/IIIa inhibitor, is used for the treatment of acute coronary syndrome (ACS) including unstable angina and non-Q-wave myocardial infarction. To finance the acquisition, the Corporation entered into 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. 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 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.

ITEM 9. THE OFFERING AND LISTING

A. Offer and 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.

Fiscal Period/Year Ended	TSX High ($)	TSX Low ($)	Amex (1) High ($US)	Amex (1) Low ($US)
May 31, 2006	2.37	0.83	2.07	0.66
May 31, 2005	1.87	0.65	1.37	0.57
Fiscal Quarter Ended				
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
May 31, 2005	1.20	0.65	0.95	0.57
February 28, 2005	1.09	0.78	0.89	0.62
November 30, 2004	1.24	0.80	1.00	0.65
August 31, 2004	1.82	1.10	1.37	0.85
May 31, 2004	2.73	1.42	2.06	1.10
February 29, 2004	2.85	1.19	2.14	1.60
November 30, 2003	1.84	1.20	N/A	N/A
August 31, 2003	1.39	0.73	N/A	N/A
Month				
June 2006	1.79	1.27	1.60	1.20
May 2006	2.06	1.52	1.87	1.41
April 2006	2.19	1.76	1.91	1.55
March 2006	2.37	1.70	2.07	1.47
February 2006	1.79	1.54	1.57	1.34
January 2006	1.83	1.40	1.58	1.20

Note:

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

B. Markets

The Corporation's common shares were listed on The Canadian Venture Exchange under the symbol MPH , from November 29, 1999 to March 14, 2002. The common shares and Class A common shares commenced trading on the Toronto Stock Exchange on March 15, 2002 and on the American Stock Exchange on February 17, 2004. On March 1, 2003 all of the issued and outstanding Class A common

shares totalling 1,280,000 shares were converted into common shares of the Corporation on the basis of one common share for each Class A common shares in accordance with the Corporation s Articles of Continuance. The Class A common shares were identical in all respects to the common shares, except that the holders were eligible for the Manitoba Equity Tax Credit until February 28, 2003.

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

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 75% of the votes cast.

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 50 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.

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) 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.
b) Amendment to Employment Agreement dated April 5, 2005 between A.D. Friesen Enterprises Ltd. and the Corporation.
c) Amendment to Employment Agreement dated April 5, 2005 between Moray Merchant and the Corporation.
d) Amendment to Employment Agreement dated April 5, 2005 between Dawson Reimer and the Corporation.
e) Amendment to Employment Agreement dated April 5, 2005 between Derek Reimer and the Corporation.
f) Amendment dated July 8, 2005 to the Development Agreement between Medicure International Inc. and CanAm Bioresearch Inc.
g) Amendment to Employment Agreement dated October 1, 2005 between A.D. Friesen Enterprises Ltd. and the Corporation.
h) Amendment to Development Agreement dated June 1, 2000 between CanAm Bioresearch Inc. and Medicure International Inc. dated July 4, 2006.
i)

Amendment to Development Agreement dated July 2, 2004 between Medicure International Inc. and Clinical Development Research Institute Inc. dated July 4, 2006.

j) Amended Stock Option Plan approved October 25, 2005.

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 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 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 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 the U.S. state and local, U.S. federal estate and gift, or 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, 2009, 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 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 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, and certain other categories 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 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-marke 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 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) and 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 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 us for the purpose of the Tax Act, holds the 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 Customs and 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 us 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 our 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 our 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.

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.

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, subsequent to year-end the Corporation incurred significant debt in connection with its acquisition of the rights of Aggrastat® in the United States and its territories. As this debt bears interest at a fluctuating rate, the Corporation is now 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 2006, it is estimated that approximately 15% of the Corporation s expenditures were denominated in a foreign currency. 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.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable

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

Not applicable

ITEM 15. 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 a date that is within 90 days of the date of filing of this Form 20-F are effective in alerting, on a timely basis, material information relating to the Corporation that is to be publicly disclosed.

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, 2006, Dr. William A. Cochrane, a non-employee director, was a member of the audit committee of the Corporation. Dr. Cochrane resigned from the audit committee on June 28, 2006 and Mr. Kishore Kapoor, a non-employee director, was appointed to the committee on June 28, 2006. The board of directors of the Corporation has determined that both Dr. Cochrane and Mr. Kapoor (i) qualify as an

audit committee financial expert pursuant to Items 16A(b) and (c) of Form 20-F and (ii) are 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.

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.

(a) Audit fees	**2006**	**2005**
	$54,835	$26,240

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

(b) Audit-related fees	**2006**	**2005**
	$64,542	$ -

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 2006 or 2005.

(d) All other fees	**2006**	**2005**
	$71,292	$13,200

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 10 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 Accumulated During the Development Stage;
4. Consolidated Statements of Cash Flows; and
5. Notes to Consolidated Financial Statements.

Consolidated Financial Statements of

MEDICURE INC.

(A Development Stage Enterprise)

Years ended May 31, 2006, 2005 and 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors of Medicure Inc.

We have audited the consolidated balance sheets of Medicure Inc. (a Development Stage Enterprise) as at May 31, 2006 and 2005 and the consolidated statements of operations and deficit accumulated during the development stage and cash flows for each of the years in the three year period ended May 31, 2006 and for the period cumulative from inception on September 15, 1997 to May 31, 2006. 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, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three year period ended May 31, 2006 and for the period cumulative from inception on September 15, 1997 to May 31, 2006, in conformity with Canadian generally accepted accounting principles.

As discussed in note 2(f) to the consolidated financial statements, the company changed its method of accounting for stock-based compensation in fiscal 2004.

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 10 to the consolidated financial statements.

(signed) KPMG LLP

Chartered Accountants

Winnipeg, Canada

June 30, 2006, except as to note 11, which is
as of August 9, 2006

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MEDICURE INC.

(A Development Stage Enterprise)

Consolidated Balance Sheets
(Expressed in Canadian dollars)

	May 31, 2006	May 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 34,920,433	$ 7,590,918
Accounts receivable	458,424	469,766
Research advance (note 7)	200,000	200,000
Prepaid expenses	262,716	398,204
	35,841,573	8,658,888
Property and equipment (note 3)	50,663	81,002
Intangible assets (note 4)	2,921,841	1,332,969
	$ 38,814,077	$ 10,072,859
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,644,339	$ 2,732,754
Shareholders equity:		
Capital stock (note 5):		
Authorized:		
Unlimited number of common voting shares		
Unlimited number of class A common voting shares		
Unlimited number of preferred shares		
Issued:		
96,046,465 common voting shares		
(2005 - 66,826,660)	81,226,634	39,864,296
Contributed surplus [note 5(c)]	2,070,670	996,301
Deficit accumulated during the development stage	(46,127,566)	(33,520,492)
	37,169,738	7,340,105
Nature of operations (note 1)		
Commitments and contingency (note 7)		
Subsequent events (notes 7 and 11)		

	$ 38,814,077	$ 10,072,859

See accompanying notes to consolidated financial statements.

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MEDICURE INC.

(A Development Stage Enterprise)

Consolidated Statements of Operations and Deficit Accumulated During the Development Stage
(Expressed in Canadian dollars)

	Year ended May 31, 2006	Year ended May 31, 2005	Year ended May 31, 2004	Cumulative from inception on September 15, 1997 to May 31, 2006
Revenue:				
Interest and other income	$ 299,737	$ 394,784	$ 445,461	$ 1,782,541
Expenses:				
General and administrative	2,858,443	2,256,499	1,958,222	10,867,414
Research and development (note 7)	10,219,025	13,564,069	4,435,320	38,060,645
Research and development - government assistance				(261,741)
Research and development - investment tax credits	(478,473)	(553,335)		(1,220,120)
Amortization	107,379	57,874	41,005	327,885
	12,706,374	15,325,107	6,434,547	47,774,083
Other expenses (income):				
Foreign exchange loss (gain)	200,437	(64,413)		136,024
Loss for the period	(12,607,074)	(14,865,910)	(5,989,086)	(46,127,566)
Deficit accumulated during the development stage, beginning of period	(33,520,492)	(18,654,582)	(12,665,496)	
Deficit accumulated during the development stage, end of period	$ (46,127,566)	$ (33,520,492)	$ (18,654,582)	$ (46,127,566)
Basic and diluted loss per share	$ (0.17)	$ (0.22)	$ (0.11)	
Weighted average number of common shares used in computing basic and diluted loss per share	75,144,764	66,717,715	55,738,716	

See accompanying notes to consolidated financial statements.

MEDICURE INC.

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended May 31, 2006	Year ended May 31, 2005	Year ended May 31, 2004	Cumulative from inception on September 15, 1997 to May 31, 2006
Cash provided by (used in):				
Operating activities:				
Loss for the period	$ (12,607,074)	$ (14,865,910)	$ (5,989,086)	$ (46,127,566)
Adjustments for:				
Amortization of property and equipment and intangible assets	107,379	57,874	41,005	327,885
Write-off of property and equipment	17,212			17,212
Stock-based compensation	745,570	504,878	386,048	1,741,871
Change in the following:				
Accounts receivable	11,342	(191,669)	(198,553)	(433,778)
Prepaid expenses	135,488	512,133	(855,289)	(262,716)
Research advance				(200,000)
Investment tax credit receivable				35,770
Accounts payable and accrued liabilities	(1,088,415)	1,915,179	463,667	1,620,030
	(12,678,498)	(12,067,515)	(6,152,208)	(43,281,292)
Investing activities:				
Acquisition of property and equipment	(19,671)	(42,796)	(21,731)	(219,320)
Cash of acquired business at acquisition				727,005
Intangible assets	(1,224,223)	(386,157)	(231,205)	(2,638,443)
	(1,243,894)	(428,953)	(252,936)	(2,130,758)
Financing activities:				
Issuance of common shares, net of share issue costs	41,251,907	133,000	22,229,074	79,633,819
Change in due to related parties				698,664
	41,251,907	133,000	22,229,074	80,332,483
Increase (decrease) in cash and cash equivalents	27,329,515	(12,363,468)	15,823,930	34,920,433

Cash and cash equivalents, beginning of period	7,590,918	19,954,386	4,130,456	
Cash and cash equivalents, end of period	$ 34,920,433	$ 7,590,918	$ 19,954,386	$ 34,920,433
Non-cash transactions:				
Interest paid during the period	$	$	$	$ 10,306
Value assigned to shares issued as consideration for acquisition of Medicure, net of cash acquired of $727,005				755,379
Value assigned to stock options granted as consideration for acquisition of intellectual property from third party (note 4)	439,230			439,230
Value assigned to placement agent s stock-based compensation related to August 19, 2005 private placement [note 5(b)]	42,758			42,758

See accompanying notes to consolidated financial statements.

MEDICURE INC.

(A Development Stage Enterprise)

Notes to Consolidated Financial Statements
(Expressed in Canadian dollars)

Years ended May 31, 2006, 2005 and 2004

1. Nature of operations:

The company is engaged in the discovery and development of cardiovascular therapeutics and is currently in the research and development phase of its lead products, MC-1 and MC-4232. To date, the company has no products currently in commercial production or use. Accordingly, the company is considered to be a development stage enterprise for accounting purposes. Since September 15, 1997, the date of inception of the company through to May 31, 2006, the company has expended approximately $36,579,000 net of government assistance and investment tax credits, which aggregate approximately $1,482,000, 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, investment tax credits, government grants and interest income. The success of the company is dependent on its ability to obtain sufficient funds to conduct its clinical trials and to successfully commercialize its products. Subsequent to May 31, 2006, the company acquired the rights to AGGRASTAT® Injection (tirofiban hydrochloride) in the United States and its territories (Puerto Rico, Virgin Islands, and Guam) as disclosed in note 11.

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 10 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 subsidiary, Medicure International Inc. All significant inter-company transactions and balances have been eliminated.

(b) Cash and cash equivalents: