

MEDICURE INC
Form 20-F
September 09, 2009

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

FORM 20-F

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

or

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

For the fiscal year ended: **May 31, 2009**

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)

Dr. Albert D. Friesen, Tel: (204) 487-7412, Fax: (204) 488-9823

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

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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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, 2009 the registrant had 130,307,552 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 [] Non-Accelerated Filer [X]

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP [] International Financial Reporting
Standards as issued by the
International
Accounting Standards Board [] Other [X]

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 [X] Item 18 []

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

Yes [] No [X]

As of May 31, 2009, the rate for Canadian dollars was US \$0.9160 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;

"**CABG**" means coronary artery bypass graft;

"**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 Practices;

"**GMP**" means Good Manufacturing Practices;

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

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

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

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

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

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

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

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

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

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

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

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

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

FORWARD LOOKING STATEMENTS

Medicure Inc. cautions readers that certain important factors (including without limitation those set forth in this Form 20-F) may affect the Corporation's actual results in the future and could cause such results to differ materially from any forward-looking statements that may be deemed to have been made in this Form 20-F annual report, or that are otherwise made by or on behalf of the Corporation. This Annual Report contains forward-looking statements and information which may not be based on historical fact, which may be identified by the words "believes," "may," "plan," "will," "estimate," "continue," "anticipates," "intends," "expects," and similar expressions and the negative of such expressions. Such forward looking statements include, without limitation, statements regarding:

- our intention to further advance our commercial operation and increase AGGRASTAT® product revenue;
- our intention to raise capital through equity or debt financings, collaborative or other arrangements with third parties or through other sources of financing;
- our ongoing corporate restructuring plan including the ongoing negotiations with our existing lender;
- our intention to discover and develop new pharmaceuticals;
- our intention to license the sale and distribution of any products we may commercialize to larger, international pharmaceutical companies;
- our plan to move forward with a clinical development program for MC-1 in chronic indications;
- our intention to build a pipeline of pre-clinical products over the next several years, including our drug product candidates currently at the discovery and preclinical stages of development;
- our evaluation of other drug candidates for potential license with the objective of further broadening our product and patent portfolio; and
- our licensing and research collaboration discussions, from time to time, with larger pharmaceutical firms and other biotechnology firms relating to the potential development and commercialization of our product candidates.

Such forward-looking statements and information involve a number of assumptions as well as known and unknown risks, uncertainties and other factors that may cause the actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements and information including, without limitation:

- the ability to meet its debt obligations;
 - dependence on collaborative partners;
 - sufficient working capital to meet current obligations;
-

- our ability to continue as a going concern;
- the competitive landscape in the markets which we compete, pricing and/or Medicare/Medicaid positioning for AGGRASTAT®;
- the availability of capital on acceptable terms to pursue the commercialization of AGGRASTAT® and to carry on research and development programs related to MC-1 or other products;
- unanticipated interruptions in our manufacturing operations;
- significant changes in foreign exchange rate;
- the impact of new discoveries and scientific information that affect the competitive positioning of AGGRASTAT® and/or its competitors;
- the impact of competitive products and pricing;
- the compliance with all long-term debt covenants and obligations;
- the expense and outcome of certain legal and regulatory proceedings and expense thereto;
- the nature of the market for MC-1 in the treatment of chronic cardiovascular and metabolic indications;
- the regulatory approval process leading to commercialization;
- fluctuations in operating results,
- our ability to anticipate and manage the risks associated with the foregoing, contractual disagreements with third parties;
- the unpredictability of protection provided by our patents;
- the results of continuing safety and efficacy studies by industry and government agencies;
- the regulatory environment and decisions by regulatory bodies impacting our products, fees relating or our and the feasibility of additional clinical trials;
- the Company's stage of development;
- the Company's limited product revenues;
- the Company's limited marketing experience
- risks associated with the completion of clinical trials and obtaining regulatory approval to market the Company's products and
- other risks as detailed from time to time in our filings with the SEC and the Canadian Securities Administrators

These factors should be considered carefully and readers are cautioned not to place undue reliance on such forward-looking statements and information. The Company disclaims any obligation to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements and information contained herein to reflect future results, events or developments, except as otherwise

required by applicable law. Additional risks and uncertainties relating to the Company and its business can be found in the "Risk Factors" section of this Annual Report

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, 2009 and 2008 and for the fiscal years ended May 31, 2009, 2008 and 2007 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, 2007, 2006 and 2005 and for the fiscal years ended May 31, 2006 and 2005 was extracted from the audited financial statements of the Corporation not included in this annual report. Reference is made to Note 16 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, debt service obligations and cash commitments. The Corporation has financed its operations principally through the sale of its equity securities and the issuance of debt. The Corporation's ability to continue operations is dependent on the ability of the Corporation to restructure its debt and obtain additional financing. See "Item 3 - Key Information - D. Risk Factors."

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

Balance Sheet Data	May 31, 2009	May 31, 2008	May 31, 2007	May 31, 2006	May 31, 2005
(as at period end)	\$	\$	\$	\$	\$
Current Assets	3,519,609	14,402,736	35,827,187	35,841,573	8,658,888
Capital Assets	93,532	132,887	196,521	50,663	81,002
Intangible Assets	5,936,819	8,353,610	23,412,131	2,921,841	1,332,969
Other Assets	-	11,916,000	349,963	-	-
Total Assets	9,549,960	34,805,233	59,785,802	38,814,077	10,072,859
Total Liabilities	29,096,919	41,361,393	25,479,333	1,644,339	2,732,754
Net Assets / (deficiency)	(19,546,959)	(6,556,160)	34,306,469	37,169,738	7,340,105
Capital Stock, warrants and Contributed Surplus	129,002,341	128,677,313	112,137,421	83,297,304	40,860,597
Deficit	(148,549,300)	(135,233,473)	(77,830,952)	(46,127,566)	(33,520,492)
Statement of Operations					
(for the fiscal year ended on)					
Product Sales	4,792,513	2,247,129	5,944,730	-	-
Interest and Other Income	255,713	1,149,574	1,590,801	299,737	394,784
Loss from Continuing Operations	(13,315,827)	(57,402,521)	(31,703,386)	(12,607,074)	(14,865,910)
Net Loss for the Period	(13,315,827)	(57,402,521)	(31,703,386)	(12,607,074)	(14,865,910)
Basic and Diluted Loss per Share Weighted-Average Number of Common Shares Outstanding	(0.10)	(0.46)	(0.30)	(0.17)	(0.22)
	130,307,552	125,476,086	104,879,404	75,144,764	66,717,715

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

Balance Sheet Data	May 31, 2009	May 31, 2008	May 31, 2007	May 31, 2006	May 31, 2005
(as at Period end)					
Current Assets	3,519,609	14,402,736	35,827,187	35,841,573	8,658,888
Capital Assets	93,532	132,887	196,521	50,663	60,859
Intangible Assets	4,676,656	5,510,661	20,078,862	-	-
Other Assets	2,250,518	14,470,081	349,963	-	-
Total Assets	10,540,315	34,516,365	56,452,533	35,892,236	8,719,747
Total Liabilities	31,347,086	43,915,123	25,479,333	1,644,339	2,732,754
Net Assets / (deficiency)	(20,806,771)	(9,398,758)	30,973,200	34,247,897	5,986,993
Capital Stock, warrants and Contributed Surplus	145,246,995	144,921,967	128,382,255	99,542,135	57,105,431
Deficit	(166,053,766)	(154,320,725)	(97,409,055)	(65,294,238)	(51,118,438)
Statement of Operations					
Product Sales	4,792,513	2,247,129	5,944,730	-	-
Interest and Other	255,713	1,149,574	1,590,801	299,737	394,784
Income					
Loss from Continuing Operations	(11,733,041)	(56,911,670)	(32,114,817)	(14,175,800)	(15,225,994)
Net Loss for the Period	(11,733,041)	(56,911,670)	(32,114,817)	(14,175,800)	(15,225,994)
Basic and Diluted Loss per Share	(0.09)	(0.45)	(0.31)	(0.19)	(0.23)
Weighted-Average Number of Common Shares Outstanding	130,307,552	125,476,086	104,879,404	75,144,764	66,717,715
Comparability of Data					

The selected financial data for the fiscal years ended May 31, 2009, 2008, 2007, 2006 and 2005 includes the operations of Medicare International Inc., a Barbados corporation ("Medicare International"), commencing June 1, 2000, and Medicare Pharma Inc., a United States corporation, and Medicare Europe Limited, a United Kingdom corporation, commencing June 1, 2006.

Dividends

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

Exchange Rates

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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, 2009	May 31, 2008	May 31, 2007	May 31, 2006	May 31, 2005		
Period End	0.9160	1.0070	0.9349	0.9079	0.7967		
Average	0.8645	0.9857	0.8798	0.8588	0.7978		
	August 2009	July 2009	June 2009	May 2009	April 2009	March 2009	February 2009
	(Aug 1- 18)						
High for Period ⁽¹⁾	.9061	0.8529	0.8664	0.9176	0.8421	0.8202	0.8224
Low for Period ⁽¹⁾	.8992	0.8617	0.8591	0.8365	0.7870	0.7653	0.7855

Notes:

⁽¹⁾ Figures are extracted from daily exchange rates

As of August 18, 2009 the exchange rate to convert one Canadian dollar into the U.S. dollar was 0.9076.

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.

Going concern risk

The consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is significant doubt about the appropriateness of the use of the going concern assumption because the Company has experienced operating losses and cash outflows from operations since incorporation and has significant debt servicing obligations. In addition, the Company has had to seek extensions from its lender under its secured debt financing agreement dated September 17, 2007 to further defer a required payment originally due July 15, 2009. Without these extensions the Company would have been in default in respect to its long-term debt. Upon an event of default, the lender could exercise its security rights under the agreement. See note 1 to the accompanying consolidated financial statements.

The Company has experienced a loss of \$13,315,827 and negative cash flows from operations of \$9,687,663 in the year ended May 31, 2009, and has accumulated a deficit of \$148,549,300 as at May 31, 2009. In March 2008, the Company announced a corporate restructuring which included a significant reduction in numbers of staff and in resources allocated to certain programs. The Company continues to further reduce its staff and corporate expenses to the extent deemed appropriate in order to more closely align expenses with net revenue. The Company is also in discussions with its senior lender to restructure

its debt. Based on the Company's operating plan its existing working capital is not sufficient to fund its planned operations, capital requirements, debt servicing obligations, and commitments through the end of the fiscal 2010 year without restructuring of its debt and raising additional capital. No agreements with the lender or other potential lenders or investors have been reached yet and there can be no assurance that such agreements will be reached. Further, the Company's financing agreement includes certain restrictive covenants on commercial and developmental products including intellectual property. The ability of the Company to execute on its operating plan is likely to be contingent on having collaborative relationships with its lender. If the Company is unable to restructure its debt, complete other strategic alternatives, and/or secure additional funds, the Company will have to consider additional strategic alternatives which may include, among other strategies, asset divestitures, monetization of certain intangibles, and/or the winding up, dissolution or liquidation of the Company.

The ability of the Company to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on many factors, including, but not limited to the actions taken or planned, some of which are described above, which are intended to mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Company to continue as a going concern.

The Corporation has engaged in a restructuring program designed to reduce costs and conserve capital which may not be successful.

The Corporation continues to restructure and look for ways to reduce cost and conserve costs. It is currently realigning its commercial sales force and restructuring its head office operations. This may negatively impact the ability of the Corporation to retain qualified management, staff and consultants which may further limit the Corporation's ability to continue its commercial operations as well as its ongoing research and development activities.

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

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

The Corporation has incurred net losses every year since inception in 1997. The Corporation incurred net losses of \$13,315,827 for the year ended May 31, 2009, \$57,402,521 for the year ended May 31, 2008, \$31,703,386 for the year ended May 31, 2007, \$12,607,074 for the year ended May 31, 2006, and \$14,865,910 for the year ended May 31, 2005.

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

- a) the success of the Corporation's research and development activities, including its drug discovery, preclinical and clinical development programs;
- b) obtaining Canadian and United States regulatory approvals to market any of lead products;
- c)

the ability to contract for the manufacture of the Corporation's products according to schedule and within budget, given that it has no experience in large scale manufacturing;

- d) the ability to successfully prosecute and defend its patents and other intellectual property; and
-

- e) the ability to successfully market the Corporation's products including AGGRASTAT® (tirofiban hydrochloride), given that it has limited experience in marketing.

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

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

In September 2007, the Company entered into a debt financing agreement with Birmingham Associates Ltd. (Birmingham), an affiliate of Elliott Associates, L.P. (Elliott) for a US\$25 million up-front cash payment. Under the terms of the agreement, Birmingham will receive a payment based on a percentage of AGGRASTAT® net sales. Birmingham is entitled to a return of 20 percent on the first US\$15 million in AGGRASTAT® revenues, 17.5 percent on the next US\$10 million, 15 percent on the next \$5 million and 5 percent thereafter, subject to an escalating minimum annual return, until May 31, 2020. The minimum annual returns start at US\$2.5 million in 2008 and escalate to US\$6.9 million in 2017, with minimum payments over the life of the agreement aggregating US\$49.7 million. The Company has had to seek extensions from its lender under its secured debt financing agreement dated September 17, 2007 to defer a required payment of US\$1.7 million until the earlier of November 30, 2009 and the date which is five business days following the date on which Medicare receives written notice from the lender. Under the terms of the extension agreements, and only while they remain in force, non-payment of this amount or further amounts due does not result in an Event of Default. Upon an event of default, the lender could exercise its security rights under the agreement.

The Corporation's substantial debt could impair its financial condition. The Corporation is highly leveraged and has substantial debt service obligations which it may not be able to meet in the ordinary course of business.

As of May 31, 2009, the Corporation had approximately US\$47.2 million of future debt service obligations (minimum payments) on its long-term debt. This substantial indebtedness could have important consequences for the Corporation. For example, it could:

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

There is no guarantee that the Corporation will be able to meet its obligations under these facilities.

The Corporation may be exposed to short-term liquidity risk.

The Corporation currently relies on trade credit as well as cash from term debt and equity issues to provide the necessary short-term financing to conduct the Corporation's research and development activities as well as its commercial operations. Should suppliers and other creditors decline to extend

short-term credit to the Corporation in the future, it may have a material adverse effect on the Company's business prospects, financial results and financial condition.

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

Despite current indebtedness levels, the Corporation may still be able to incur substantial additional indebtedness in the future.

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

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

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

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

The Corporation's business, financial condition and results of operations may be adversely affected if it fails to obtain regulatory approvals in Canada, the United States and abroad to market and its products 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 Company's business prospects and operations depend on the continued contributions of certain of the Company's executive officers and other key management and technical personnel, certain of whom would be difficult to replace.

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

Also, certain of the Corporation's management personnel are officers and/or directors of other companies, some publicly-traded, and will only devote part of their time to the Corporation. The Corporation does not have key person insurance in effect in the event of a loss of any management, scientific or other key personnel. The loss of the services of one or more of the Company's current executive officers or key personnel or the inability to continue to attract qualified personnel could have a material adverse effect on the Company's business prospects, financial results and financial condition.

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

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

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

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

The Corporation's success will depend partly on its ability to enter into and to maintain various arrangements with corporate partners, licensors, licensees and others for the research, development, clinical trials, manufacturing, marketing, sales and commercialization of its products. These relationships will be crucial to the Corporation's intention to license to or contract with larger, international pharmaceutical companies the manufacturing, marketing, sales and distribution of any products it may commercialize for production. There can be no assurance that any licensing or other agreements will be established on favourable terms, if at all. The failure to establish successful collaborative arrangements may negatively impact the Corporation's ability to develop and commercialize its products, and may adversely affect its business, financial condition and results of operations.

The Corporation's financing agreement with Birmingham Associates includes certain restrictive covenants on the corporations commercial and developmental products including intellectual property. The ability for the Company to execute on portions of its business plan may be contingent on having collaborative relationships with Birmingham. The failure to establish or maintain this successful collaborative arrangement may negatively impact the Corporation.

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

The Corporation is currently dependent on a single manufacturer of its sole commercial product, AGGRASTAT® and on a single supplier of raw material used in the manufacture of AGGRASTAT®.

The Corporation is reliant on a single supplier of the raw material for AGGRASTAT® and a single third party manufacturer of the final product AGGRASTAT®. If the supply of raw material or the manufacturing agreement for AGGRASTAT® is terminated or interrupted and the Corporation was unable to obtain a replacement supplier or manufacturer, it could have a material adverse effect on the Company's business prospects, financial results and financial condition.

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

Government and insurance reimbursements for healthcare expenditures play an important role for all healthcare providers, including physicians, medical device companies, drug companies, medical supply companies, and companies, such as the Corporation, that plan to offer various products in the United States and other countries in the future. The Corporation's ability to earn sufficient returns on its products will depend in part on the extent to which reimbursement for the costs of such products, related therapies and related treatments will be available from government health administration authorities, private health coverage insurers, managed care organizations, and other organizations. In the United States, the Corporation's ability to have its products and related treatments and therapies eligible for Medicare or 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 payers 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.

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

The Corporation has no experience in large-scale manufacturing and has no experience in marketing or selling its products except for limited experience marketing AGGRASTAT®. The Corporation may never be able to successfully manufacture and market certain of its products. If the TPD or FDA approves any other of its products, the Corporation intends to contract with and rely on third parties to manufacture, and possible to market and sell its products. Accordingly, the quality, timing and ultimately the commercial success of such products may be outside of the Corporation's control. Failure of or delay by a third party manufacturer of the Corporation's products to comply with good manufacturing practices or similar quality control regulations or satisfy regulatory inspections may have a material adverse effect on its future prospects. Failure of or delay by a third party in the marketing or selling of the Corporation's products or failure of the Corporation to successfully market and sell such products likewise may have a

material adverse effect on its future prospects.

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

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

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

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

The Corporation owns or jointly owns 40 United States patents. The Corporation has additional pending United States patent applications. The Corporation's pending and any future patent applications may not be accepted by the United States Patent and Trademark Office or any other jurisdiction in which applications may be filed. Also, processes or products that may be developed by the Corporation in the future may not be patentable.

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

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

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

The Corporation's success will depend partly on its ability to operate without infringing upon the patents and other proprietary rights of third parties. The Corporation is not currently aware that any of its products or processes infringes the proprietary rights of third parties. However, despite its best efforts, the Corporation may be sued for infringing on the patent or other proprietary rights of third parties at any time in the future.

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

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

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

The Corporation is or may become subject to various federal, provincial, state and local laws, regulations and recommendations. The Corporation is subject to various laws and regulations in Canada, relating to product emissions, use and disposal of hazardous or toxic chemicals or potentially hazardous substances, infectious disease agents and other materials, and laboratory and manufacturing practices used in connection with its research and development activities. If the Corporation fails to comp

96,484

110,304

Total current assets

1,179,119

1,182,774

Property, plant and equipment, net

7,892,733

7,949,150

Other assets

Prepaid royalties

90,221

86,626

Goodwill

	596,103
	596,103
Equity investments	
	230,519
	225,605
Other	
	176,423
	173,701
Total other assets	
	1,093,266
	1,082,035
Total assets	
\$	
	10,165,118

\$

10,213,959

Liabilities and Stockholders Equity

Current liabilities

Accounts payable

\$

294,341

\$

383,782

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Coal derivative liabilities

9,100

7,828

Accrued expenses and other current liabilities

357,386

348,207

Current maturities of debt and short-term borrowings

102,356

280,851

Total current liabilities

763,183

1,020,668

Long-term debt

3,967,796

	3,762,297
Asset retirement obligations	
	432,620
	446,784
Accrued pension benefits	
	49,378
	48,244
Accrued postretirement benefits other than pension	
	42,784
	42,309
Accrued workers' compensation	
	74,012
	71,948
Deferred income taxes	

	982,596
	976,753
Other noncurrent liabilities	
	268,585
	255,382
Total liabilities	
	6,580,954
	6,624,385
Redeemable noncontrolling interest	
	11,739
	11,534

Stockholders Equity

Common stock

2,141

2,136

Paid-in capital

3,024,553

3,015,349

Treasury stock, at cost

(53,848)

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)		(53,848
)		
Retained earnings		600,230
		622,353
Accumulated other comprehensive loss		(651
)		(7,950
)		
Total stockholders' equity		3,572,425
		3,578,040
Total liabilities and stockholders' equity		
\$		10,165,118
\$		10,213,959

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
Operating activities		
Net income	\$ 1,409	\$ 55,874
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	139,966	83,537
Amortization of acquired sales contracts, net	(14,017)	5,944
Prepaid royalties expensed	8,586	8,916
Employee stock-based compensation expense	4,079	5,290
Amortization relating to financing activities	4,288	2,442
Changes in:		
Receivables	88,082	(53,586)
Inventories	(111,196)	(12,292)
Coal derivative assets and liabilities	(5,347)	(1,087)
Accounts payable, accrued expenses and other current liabilities	(66,222)	(38,054)
Income taxes, net	23,002	12,558
Deferred income taxes	(21,742)	(1,026)
Other	4,102	17,629
Cash provided by operating activities	54,990	86,145
Investing activities		
Decrease in restricted cash	1,455	
Capital expenditures	(93,271)	(38,711)
Proceeds from dispositions of property, plant and equipment	22,105	516
Purchases of investments and advances to affiliates	(5,777)	(34,419)
Additions to prepaid royalties	(8,262)	(20,915)
Cash used in investing activities	(83,750)	(93,529)
Financing activities		
Payments to retire debt	(1,330)	
Net increase in borrowings under lines of credit and commercial paper program	34,000	3,681
Net payments on other debt	(5,993)	(5,161)
Debt financing costs	(100)	(8)
Dividends paid	(23,327)	(16,269)
Issuance of common stock under incentive plans	5,131	768
Cash provided by (used in) financing activities	8,381	(16,989)
Decrease in cash and cash equivalents	(20,379)	(24,373)
Cash and cash equivalents, beginning of period	138,149	93,593
Cash and cash equivalents, end of period	\$ 117,770	\$ 69,220

The accompanying notes are an integral part of the condensed consolidated financial statements.

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Arch Coal, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Arch Coal, Inc. and its subsidiaries and controlled entities (the Company). The Company's primary business is the production of steam and metallurgical coal from surface and underground mines located throughout the United States, for sale to utility, industrial and export markets. On June 15, 2011, the Company acquired International Coal Group, Inc. (ICG), as described in Note 3, Business Combinations. The Company operates 23 mining complexes in West Virginia, Kentucky, Maryland, Virginia, Illinois, Wyoming, Colorado and Utah. All subsidiaries (except as noted below) are wholly-owned. Intercompany transactions and accounts have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and U.S. Securities and Exchange Commission regulations. In the opinion of management, all adjustments, consisting of normal, recurring accruals considered necessary for a fair presentation, have been included. Results of operations for the three period ended March 31, 2012 are not necessarily indicative of results to be expected for the year ending December 31, 2012. These financial statements should be read in conjunction with the audited financial statements and related notes as of and for the year ended December 31, 2011 included in the Company's Annual Report on Form 10-K/A filed with the U.S. Securities and Exchange Commission.

The Company owns a 99% membership interest in a joint venture named Arch Western Resources, LLC (Arch Western) which operates coal mines in Wyoming, Colorado and Utah. The Company also acts as the managing member of Arch Western. On April 9, 2012, Delta Housing, Inc., the other member in Arch Western, exercised their contractual right to require us to purchase their membership interests in Arch Western. The negotiation of this sale and purchase is ongoing and we expect to complete this acquisition by the end of the third quarter.

2. Accounting Policies

There is no new accounting guidance that is expected to have a significant impact on the Company's financial statements.

3. Business Combination

On June 15, 2011, the Company completed its acquisition of ICG, a leading coal producer. During the first quarter of 2012, the Company finalized the determination of the fair values of the assets acquired and liabilities assumed in the acquisition, with no material adjustments to

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what was recorded as of December 31, 2011.

4. Debt

	March 31, 2012	December 31, 2011
	(In thousands)	
Indebtedness to banks under credit facilities	\$ 515,300	\$ 481,300
6.75% senior notes (\$450.0 million face value) due 2013	450,809	450,971
8.75% senior notes (\$600.0 million face value) due 2016	589,463	588,974
7.00% senior notes due in 2019 at par	1,000,000	1,000,000
7.25% senior notes due 2020 at par	500,000	500,000
7.25% senior notes due 2021 at par	1,000,000	1,000,000
Other	14,580	21,903
	4,070,152	4,043,148
Less current maturities of debt and short-term borrowings	102,356	280,851
Long-term debt	\$ 3,967,796	\$ 3,762,297

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The current maturities of debt include contractual maturities, as well as amounts borrowed that are supported by credit facilities that have a term of less than one year and amounts borrowed under credit facilities with terms longer than one year that the Company does not intend to refinance on a long-term basis, based on cash projections and management's plans.

On April 30, 2012, the Company received commitment letters with lending institutions to refinance certain indebtedness having near-term maturities and to increase the Company's liquidity in order to execute on key long-term growth initiatives, particularly the development of the Company's metallurgical coal properties. As part of the financing package, these lenders have agreed, subject to certain customary conditions, to enter into an amendment to the existing senior secured revolving credit facility which will, among other things, suspend the Company's compliance with the debt-to-EBITDA ratio and other financial covenants in the existing credit agreement over the next 24 months and replace them with minimum performance targets at levels consistent with the current coal market environment. We will also receive a \$1 billion, six-year term loan facility, which will contain no financial maintenance covenants, and the maximum borrowing capacity of the revolving credit facility will be reduced from \$2 billion to \$1 billion. The proceeds of the term loan will be used to retire the outstanding \$450.0 million aggregate principal amount of 6¾% Senior Notes due 2013 issued by Arch Western Finance, LLC (Arch Western Finance), the Company's indirect subsidiary.

On May 1, 2012, Arch Western Finance commenced a cash tender offer for any and all of its outstanding \$450.0 million aggregate principal amount of 6¾% Senior Notes due 2013. In connection with the tender offer, Arch Western Finance is soliciting consents from the holders of the senior notes for certain proposed amendments to the indenture governing the notes that eliminates most of the covenants and certain default provisions applicable to the senior notes, as well as reduce the minimum notice period in the optional redemption provision of the senior notes from 30 days to three days. If Arch Western Finance purchases less than all of the outstanding senior notes in the tender offer, it intends to redeem any senior notes that remain outstanding. The terms and conditions of the tender offer and consent solicitation are described in an Offer to Purchase and Consent Solicitation Statement (the Statement) and a related Consent and Letter of Transmittal (the Letter of Transmittal), which have been sent to holders of the senior notes. The Consent Solicitation expires on May 14, 2012, prior to which the consideration for each \$1,000 of principal is \$1,002.50. For notes tendered after the expiration of the Consent Solicitation and before May 29, 2012, the end of the tender offer, the consideration for each \$1,000 of principal is \$972.50.

5. Goodwill

An approximate 20% drop in the Company's stock price during the first quarter of 2012, combined with significant decrease in thermal coal demand during the quarter, indicated that the fair value of the Company's goodwill could be less than its carrying value. Accordingly, we performed the first step of the two-step goodwill impairment test as of March 31, 2012. The fair value of all reporting units that have been assigned goodwill exceeded their respective carrying values, so no further testing was necessary. The value of our Black Thunder reporting unit, where \$115.8 million of goodwill has been allocated, would be sensitive to future volume variations should thermal markets weaken further, which could cause us to perform step 2 of the test. The goodwill allocated to certain Appalachia reporting units is particularly sensitive to volatility in the demand for metallurgical coal. Should metallurgical coal markets weaken, it could cause the fair value of the reporting units to be less than their carrying value, requiring us to perform step 2 of the test for impairment. Additionally, further sustained declines in the Company's stock price below levels experienced in the first quarter would also require us to perform step-2 of the test for impairment. Performance of step 2 of the impairment test, which requires a valuation of individual assets and liabilities of the respective reporting units in order to calculate the implied fair value of goodwill could result in an impairment of goodwill.

Table of Contents**6. Equity Investments and Membership Interests in Joint Ventures**

The Company accounts for its investments and membership interests in joint ventures under the equity method of accounting if the Company has the ability to exercise significant influence, but not control, over the entity. Below are the equity method investments reflected in the condensed consolidated balance sheets:

(In thousands)	Knight Hawk Holdings, LLC (KH)	DKRW Advanced Fuels, LLC (DKRW)	Dominion Terminal Associates (DTA)	Tenaska Trailblazer Partners, LLC (Tenaska)	Millennium Bulk Terminals, LLC (MBT)	Tongue River Railroad, LLC (TRR)	Total
Balance at December 31, 2011	\$ 135,225	\$ 19,715	\$ 16,086	\$ 15,266	\$ 26,324	\$ 12,989	\$ 225,605
Investments in affiliates							
Advances to (distributions from) affiliates, net	(1,801)		925		2,562	675	2,361
Equity in comprehensive income (loss)	5,243	(879)	(1,254)		(557)		2,553
Balance at March 31, 2012	\$ 138,667	\$ 18,836	\$ 15,757	\$ 15,266	\$ 28,329	\$ 13,664	\$ 230,519
Notes receivable from investees:							
Balance at December 31, 2011	\$	\$ 30,751	\$	\$ 5,059	\$	\$	\$ 35,810
Balance at March 31, 2012	\$	\$ 33,561	\$	\$ 5,031	\$	\$	\$ 38,592

Summarized financial information of the Company's equity method investees follows:

(In thousands)	Three Months Ended March 31,	
	2012	2011
Condensed combined income statement information:		
Revenues	\$ 51,743	\$ 44,470
Gross profit	2,475	6,084
Income from operations	(376)	3,643
Net income (loss)	(2,437)	2,283

	March 31, 2012	December 31, 2011
Condensed combined balance sheet information:		
Current assets	\$ 94,811	\$ 94,645
Noncurrent assets	361,918	332,124
Total assets	\$ 456,729	\$ 426,769
Current liabilities	\$ 62,260	\$ 51,953
Noncurrent liabilities	125,350	120,494
Equity	268,918	254,161
Noncontrolling interest	201	161

Total liabilities and equity	\$	456,729	\$	426,769
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The Company may be required to make future contingent payments of up to \$73.0 million related to development financing for certain of its equity investees. The Company's obligation to make these payments, as well as the timing of any payments required, is contingent upon a number of factors, including project development progress, receipt of permits and construction financing.

7. Derivatives

Diesel fuel price risk management

The Company is exposed to price risk with respect to diesel fuel purchased for use in its operations. The Company anticipates purchasing approximately 75 to 80 million gallons of diesel fuel for use in its operations during 2012. To reduce the volatility in the

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price of diesel fuel for its operations, the Company uses forward physical diesel purchase contracts, as well as heating oil swaps and purchased call options. At March 31, 2012, the Company had protected the price of approximately 85% of its expected purchases for the remainder of fiscal year 2012 and 50% of its first quarter of 2013 purchases.

At March 31, 2012, the Company had purchased heating oil call options for approximately 59 million gallons for the purpose of managing the price risk associated with future diesel purchases. During the first quarter of 2012 the Company determined, the effectiveness of the heating oil options could not be established as of December 31, 2011 on an ongoing basis. As a result, the amount remaining in accumulated other comprehensive income of \$8.2 million, or \$5.2 million net of income taxes, was recorded in earnings, in the other income, net line on the condensed consolidated statement of income. The out of period adjustment is not deemed material to prior period results, the expected results of the full 2012 fiscal year or for the trend of earnings of the Company.

The Company also purchased heating oil call options to hedge the fuel surcharges on its barge and rail shipments that cover increases in diesel fuel prices. These positions reduce the Company's risk of cash flow fluctuations related to these surcharges but the positions are not accounted for as hedges. At March 31, 2012, Company held purchased call options for approximately 15.5 million gallons for the purpose of managing the fluctuations in cash flows associated with fuel surcharges on future shipments.

Coal risk management positions

The Company may sell or purchase forward contracts, swaps and options in the over-the-counter coal market in order to manage its exposure to coal prices. The Company has exposure to the risk of fluctuating coal prices related to forecasted sales or purchases of coal or to the risk of changes in the fair value of a fixed price physical sales contract. Certain derivative contracts may be designated as hedges of these risks.

At March 31, 2012, the Company held derivatives for risk management purposes that are expected to settle in the following years :

(Tons in thousands)	2012	2013	2014	2015
Coal sales	(3,025)	(1,117)	(1,440)	(720)
Coal purchases	417			

Coal trading positions

The Company may sell or purchase forward contracts, swaps and options in the over-the-counter coal market for trading purposes. The Company is exposed to the risk of changes in coal prices on the value of its coal trading portfolio. The estimated future realization of the value of the trading portfolio is \$4.3 million of losses in 2012 and \$2.2 million of losses in 2013.

Tabular derivatives disclosures

The Company's contracts with certain of its counterparties allow for the settlement of contracts in an asset position with contracts in a liability position in the event of default or termination. Such netting arrangements reduce the Company's credit exposure related to these counterparties. For classification purposes, the Company records the net fair value of all the positions with a given counterparty as a net asset or liability in the consolidated balance sheets. The amounts shown in the table below represent the fair value position of individual contracts, regardless of the net position presented in the accompanying consolidated balance sheets. The fair value and location of derivatives reflected in the accompanying consolidated balance sheets are as follows:

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Fair Value of Derivatives (In thousands)	March 31, 2012		December 31, 2011	
	Asset Derivative	Liability Derivative	Asset Derivative	Liability Derivative
Derivatives Designated as Hedging Instruments				
Heating oil diesel purchases	\$	\$	\$ 8,997	\$
Coal	3,256	(218)	1,109	
Total	3,256	(218)	10,106	
Derivatives Not Designated as Hedging Instruments				
Heating oil diesel purchases	12,869			
Heating oil fuel surcharges	2,837		1,797	
Coal held for trading purposes	26,945	(33,411)	15,505	(19,927)
Coal	22,491	(6,119)	14,855	(6,035)
Total	65,142	(39,530)	32,157	(25,962)
Total derivatives	68,398	(39,748)	42,263	(25,962)
Effect of counterparty netting	(30,648)	30,648	(18,134)	18,134
Net derivatives as classified in the balance sheets	\$ 37,750	\$ (9,100)	\$ 28,650	\$ (7,828)
				\$ 16,301

	March 31, 2012	December 31, 2011
Net derivatives as reflected on the balance sheets		
Heating oil		
Other current assets	\$ 15,707	\$ 10,794
Coal		
Coal derivative assets	22,043	13,335
Coal derivative liabilities	(9,100)	(7,828)
	\$ 28,650	\$ 16,301

The Company had a current asset for the right to reclaim cash collateral of \$15.0 million and \$12.4 million at March 31, 2012 and December 31, 2011, respectively. These amounts are not included with the derivatives presented in the table above and are included in other current assets in the accompanying consolidated balance sheets.

The effects of derivatives on measures of financial performance are as follows for the three month periods ended March 31:

Three Months Ended March 31 Derivatives used in Fair Value Hedging Relationships (in thousands)	Hedged Items in Fair Value Hedge Relationships		Loss on Hedged Items In Fair Value Hedge Relationships	
	2012	2011	2012	2011
Coal	\$	\$	Firm commitments	\$
				\$

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Derivatives used in Cash Flow Hedging Relationships (in thousands)	Gain (Loss) Recognized in OCI				Gains (Losses) Reclassified from OCI into Income	
	(Effective Portion)		(Effective Portion)		(Effective Portion)	
	2012	2011	2012	2011	2012	2011
Heating oil diesel purchases	\$	\$	14,258	\$	\$	3,170(2)
Coal sales		2,493	1,406		201	87(1)
Coal purchases		(202)	(876)			(2)
Totals	\$	2,291	\$ 14,788	\$	201	\$ 3,257

	Gain (Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2012	2011
Heating oil diesel purchases	\$	\$
Coal sales		
Coal purchases		
Totals	\$	\$

	Derivatives Not Designated as Hedging Instruments	
	2012	2011
Coal unrealized	\$	7,552
Coal realized		3,158
Heating oil diesel purchases		423
Heating oil fuel surcharges unrealized	\$	367
		\$ (1,045)(3)
		(4)
		(4)
		(4)

Location in Statement of Income:

-
- (1) Revenues
 - (2) Cost of sales
 - (3) Change in fair value of coal derivatives and coal trading activities, net
 - (4) Other operating income, net

The Company recognized net unrealized and realized losses of \$3.9 million and net unrealized and realized gains of \$2.8 million during the three months ended March 31, 2012 and 2011, respectively, related to its trading portfolio (including derivative and non-derivative contracts). These balances are included in the caption "Change in fair value of coal derivatives and coal trading activities, net" in the accompanying consolidated statements of income and are not included in the previous table.

During the next twelve months, based on fair values at March 31, 2012, gains on derivative contracts designated as hedge instruments in cash flow hedges of approximately \$3.2 million are expected to be reclassified from other comprehensive income into earnings.

Table of Contents**8. Inventories**

Inventories consist of the following:

	March 31 2012		December 31 2011
	(In thousands)		
Coal	\$ 298,744	\$	206,517
Repair parts and supplies	174,747		163,527
Work-in-process	15,195		7,446
	\$ 488,686	\$	377,490

The repair parts and supplies are stated net of an allowance for slow-moving and obsolete inventories of \$13.4 million at March 31, 2012, and \$13.1 million at December 31, 2011.

9. Fair Value Measurements

The hierarchy of fair value measurements prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy, as defined below, give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

- Level 1 is defined as observable inputs such as quoted prices in active markets for identical assets. Level 1 assets include available-for-sale equity securities and coal futures that are submitted for clearing on the New York Mercantile Exchange.
- Level 2 is defined as observable inputs other than Level 1 prices. These include quoted prices for similar assets or liabilities in an active market, quoted prices for identical assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's level 2 assets and liabilities include commodity contracts (coal and heating oil) with fair values derived from quoted prices in over-the-counter markets or from prices received from direct broker quotes.
- Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. These include the Company's commodity option contracts (primarily coal and heating oil) valued using modeling techniques, such as Black-Scholes, that require the use of inputs, particularly volatility, that are rarely observable. Changes in the unobservable inputs would not have a significant impact on the reported Level 3 fair values at March 31, 2012.

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The table below sets forth, by level, the Company's financial assets and liabilities that are recorded at fair value in the accompanying condensed consolidated balance sheet:

	Total	Fair Value at March 31, 2012			Level 3
		Level 1	Level 2		
(In thousands)					
Assets:					
Investments in equity securities	\$ 7,936	\$ 7,936	\$	\$	
Derivatives	37,750	20,177	2,068		15,505
Total assets	\$ 45,686	\$ 28,113	\$ 2,068	\$	15,505
Liabilities:					
Derivatives	\$ 9,100	\$	\$ 6,836	\$	2,264

The Company's contracts with certain of its counterparties allow for the settlement of contracts in an asset position with contracts in a liability position in the event of default or termination. For classification purposes, the Company records the net fair value of all the positions with these counterparties as a net asset or liability. Each level in the table above displays the underlying contracts according to their classification in the accompanying condensed consolidated balance sheet, based on this counterparty netting.

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The following table summarizes the change in the fair values of financial instruments categorized as level 3.

	Three Months Ended March 31, 2012 (In thousands)	
Balance, beginning of period	\$	6,211
Realized and unrealized losses recognized in earnings, net		2,496
Realized and unrealized losses recognized in other comprehensive income, net		
Purchases		5,261
Issuances		
Settlements		(727)
Ending balance	\$	13,241

Net unrealized gains during the three month period ended March 31, 2012 related to level 3 financial instruments held on March 31, 2012 were \$2.8 million.

Fair Value of Long-Term Debt

At March 31, 2012 and December 31, 2011, the fair value of the Company's senior notes and other long-term debt, including amounts classified as current, was \$3.9 billion and \$4.2 billion, respectively. The fair values are based upon observed prices in an active market, and as such are classified as Level 1 in the fair value hierarchy.

10. Stock-Based Compensation and Other Incentive Plans

During the three months ended March 31, 2012, the Company granted options to purchase approximately 1.1 million shares of common stock with a weighted average exercise price of \$13.93 per share and a weighted average grant-date fair value of \$5.42 per share. The options' fair value was determined using the Black-Scholes option pricing model, using a weighted average risk-free rate of .767%, a weighted average dividend yield of 3.16% and a weighted average volatility of 60.18%. The options' expected life is 4.5 years and the options vest ratably over three years, and provide for the continuation of vesting after retirement for recipients that meet certain criteria. The expense for these options will be recognized through the date that the employee first becomes eligible to retire and is no longer required to provide service to earn all or part of the award.

The Company has a long-term incentive program that allows for the award of performance units. The total number of units earned by a participant is based on financial and operational performance measures, and may be paid out in cash or in shares of the Company's common stock. The Company recognizes compensation expense over the three-year term of the grant. Amounts unpaid for all grants under the plan totaled \$7.5 million and \$9.6 million as of March 31, 2012 and December 31, 2011, respectively.

11. Workers Compensation Expense

The following table details the components of workers compensation expense:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Service cost	\$ 968	\$ 193
Interest cost	680	254
Net amortization	277	(101)
Total occupational disease	1,925	346
Traumatic injury claims and assessments	5,176	2,325
Total workers compensation expense	\$ 7,101	\$ 2,671

Table of Contents**12. Employee Benefit Plans**

The following table details the components of pension benefit costs:

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Service cost	\$ 7,596	\$ 4,319
Interest cost	3,980	4,131
Expected return on plan assets	(5,538)	(5,468)
Amortization of prior service cost (credit)	(36)	47
Amortization of other actuarial losses	3,571	2,140
Net benefit cost	\$ 9,573	\$ 5,169

The following table details the components of other postretirement benefit costs (credits):

	Three Months Ended March 31,	
	2012	2011
	(In thousands)	
Service cost	\$ 549	\$ 405
Interest cost	491	498
Amortization of prior service credits	(2,995)	(591)
Amortization of other actuarial gains	(90)	(598)
Net benefit cost (credit)	\$ (2,045)	\$ (287)

13. Earnings per Common Share

The following table provides the basis for earnings per share calculations by reconciling basic and diluted weighted average shares outstanding:

	Three Months Ended March 31	
	2012	2011
	(In thousands)	
Weighted average shares outstanding:		
Basic weighted average shares outstanding	211,687	162,576
Effect of common stock equivalents under incentive plans	221	1,197
Diluted weighted average shares outstanding	211,908	163,773

The effect of options to purchase 3.0 million and 1.1 million shares of common stock were excluded from the calculation of diluted weighted average shares outstanding for the three month periods ended March 31, 2012 and 2011, respectively, because the exercise price of these options exceeded the average market price of the Company's common stock for these periods.

14. Guarantees

The Company has agreed to continue to provide surety bonds and letters of credit for the reclamation and retiree healthcare obligations of Magnum Coal Company (Magnum) related to the properties the Company sold to Magnum on December 31, 2005. Patriot Coal Corporation (Patriot) acquired Magnum in July 2008. The purchase agreement requires Magnum to reimburse the Company for costs related to the surety bonds and letters of credit and to use commercially reasonable efforts to replace the obligations. If the surety bonds and letters of credit related to the reclamation obligations are not replaced by Magnum within a specified period of time, Magnum must post a letter of credit in favor of the Company in the amounts of the reclamation obligations. As of March 31, 2012, Patriot has replaced \$48.9 million of the surety bonds and has posted letters of credit of \$16.7 million in the Company s favor. At March 31, 2012, the Company had \$38.5 million of surety bonds remaining related to properties sold to Magnum. The surety bonding amounts are mandated by the state and are not directly related to the estimated cost to reclaim the properties.

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Magnum also acquired certain coal supply contracts with customers who have not consented to the contracts' assignment from the Company to Magnum. The Company has committed to purchase coal from Magnum to sell to those customers at the same price it is charging the customers for the sale. Under the amended coal supply contracts, as amended, Magnum has the ability to buy out of its obligations under the contract at prices that are predetermined for the remainder of the agreement. Certain other contracts were assigned to Magnum. If Magnum is unable to supply the coal for these coal sales contracts or pay the buy out amount if elected, then the Company would be required to fulfill Magnum's delivery or payment obligations. The longest of the coal supply contracts extends to the year 2017. At market prices effective at March 31, 2012, the maximum amount to fulfill Magnum's obligations under the contracts that have not been assigned over their duration would be approximately \$64.1 million, and the cost of purchasing 573 thousand tons of coal to supply the assigned and guaranteed contracts over their duration would exceed the sales price under the contracts by approximately \$12.2 million. As the Company does not believe that it is probable that it would have to purchase replacement coal, no losses have been recorded in the consolidated financial statements as of March 31, 2012. However, if the Company would have to perform under these guarantees, it could potentially have a material adverse effect on the business, results of operations and financial condition of the Company.

In connection with the Company's acquisition of the coal operations of Atlantic Richfield Company (ARCO) and the simultaneous combination of the acquired ARCO operations and the Company's Wyoming operations into the Arch Western joint venture, the Company agreed to indemnify the other member of Arch Western against certain tax liabilities in the event that such liabilities arise prior to June 1, 2013 as a result of certain actions taken, including the sale or other disposition of certain properties of Arch Western, the repurchase of certain equity interests in Arch Western by Arch Western or the reduction under certain circumstances of indebtedness incurred by Arch Western in connection with the acquisition. If the Company were to become liable, the maximum amount of potential future tax payments is \$16.3 million at March 31, 2012, which is not recorded as a liability in the Company's condensed consolidated financial statements. Since the indemnification is dependent upon the initiation of activities within the Company's control and the Company does not intend to initiate such activities, it is remote that the Company will become liable for any obligation related to this indemnification. However, if such indemnification obligation were to arise, it could potentially have a material adverse effect on the business, results of operations and financial condition of the Company.

15. Contingencies

Allegheny Energy Supply (Allegheny), the sole customer of coal produced at the Company's subsidiary Wolf Run Mining Company's (Wolf Run) Sycamore No. 2 mine, filed a lawsuit against Wolf Run, Hunter Ridge Holdings, Inc. (Hunter Ridge), and ICG in state court in Allegheny County, Pennsylvania on December 28, 2006, and amended its complaint on April 23, 2007. Allegheny claimed that Wolf Run breached a coal supply contract when it declared force majeure under the contract upon idling the Sycamore No. 2 mine in the third quarter of 2006, and that Wolf Run continued to breach the contract by failing to ship in volumes referenced in the contract. The Sycamore No. 2 mine was idled after encountering adverse geologic conditions and abandoned gas wells that were previously unidentified and unmapped. After extensive searching for gas wells and rehabilitation of the mine, it was re-opened in 2007, but with notice to Allegheny that it would necessarily operate at reduced volumes in order to safely and effectively avoid the many gas wells within the reserve. The amended complaint also alleged that the production stoppages constitute a breach of the guarantee agreement by Hunter Ridge and breach of certain representations made upon entering into the contract in early 2005. Allegheny voluntarily dropped the breach of representation claims later. Allegheny claimed that it would incur costs in excess of \$100 million to purchase replacement coal over the life of the contract. ICG, Wolf Run and Hunter Ridge answered the amended complaint on August 13, 2007, disputing all of the remaining claims.

On November 3, 2008, ICG, Wolf Run and Hunter Ridge filed an amended answer and counterclaim against the plaintiffs seeking to void the coal supply agreement due to, among other things, fraudulent inducement and conspiracy. On September 23, 2009, Allegheny filed a second amended complaint alleging several alternative theories of liability in its effort to extend contractual liability to ICG, which was not a party to the original contract and did not exist at the time Wolf Run and Allegheny entered into the contract. No new substantive claims were asserted. ICG answered the second amended complaint on October 13, 2009, denying all of the new claims ICG's counterclaim was dismissed on motion for summary judgment entered on May 11, 2010. Allegheny's claims against ICG were also dismissed by summary judgment, but the claims against Wolf Run and Hunter Ridge were not. The court conducted a non-jury trial of this matter beginning on January 10, 2011 and concluding on February 1, 2011. At the trial, Allegheny presented its evidence for breach of contract and claimed that it is entitled to past and future

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damages in the aggregate of between \$228.0 million and \$377.0 million. Wolf Run and Hunter Ridge presented their defense of the claims, including evidence with respect to the existence of force majeure conditions and excuse under the contract and applicable law. Wolf Run and Hunter Ridge presented evidence that Allegheny's damages calculations were significantly inflated because it did not seek to determine damages as of the time of the breach and in some instances artificially assumed future non-delivery or did not take into account the apparent requirement to supply coal in the future. On May 2, 2011, the trial court entered a Memorandum and Verdict determining that Wolf Run had breached the coal supply contract and that the performance shortfall was not excused by force majeure. ICG and Allegheny filed post-verdict motions in the trial court and on August 23, 2011, the court denied the parties' motions. The court entered a final judgment on August 25, 2011, in the amount of \$104.1 million, which included pre-judgment interest. The parties appealed the lower court's decision to the

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Superior Court of Pennsylvania. Wolf Run and Hunter Ridge have filed an appeal bond in the amount of \$124.9 million. Briefing is complete and oral argument is scheduled for May 16, 2012.

As of March 31, 2012 and December 31, 2011, the Company had accrued \$109.8 million and \$108.3 million, respectively, for this lawsuit, including interest. The ultimate resolution of this matter could result in an outcome which may be materially different than what the Company has accrued.

In addition, the Company is a party to numerous claims and lawsuits with respect to various matters. The Company provides for costs related to contingencies when a loss is probable and the amount is reasonably determinable. After conferring with counsel, it is the opinion of management that the ultimate resolution of pending claims, other than as noted above, will not have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company.

16. Segment Information

The Company has three reportable business segments, which are based on the major coal producing basins in which the Company operates. Each of these reportable business segments includes a number of mine complexes. The Company manages its coal sales by coal basin, not by individual mine complex. Geology, coal transportation routes to customers, regulatory environments and coal quality are characteristic to a basin. Accordingly, market and contract pricing have developed by coal basin. Mine operations are evaluated based on their per-ton operating costs (defined as including all mining costs but excluding pass-through transportation expenses), as well as on other non-financial measures, such as safety and environmental performance. The Company's reportable segments are the Powder River Basin (PRB) segment, with operations in Wyoming; the Western Bituminous (WBIT) segment, with operations in Utah, Colorado and southern Wyoming; the Appalachia (APP) segment, with operations in West Virginia, Kentucky, Maryland and Virginia. The Appalachia segment includes the acquired ICG operations in Appalachia, as well as the Company's previous Central Appalachia segment. The Other operating segment represents primarily the Company's Illinois operations and ADDCAR subsidiary, which manufactures and sells its patented highwall mining system.

Operating segment results for the three months ended March 31, 2012 and 2011 are presented below. Results for the reportable segments include all direct costs of mining, including all depreciation, depletion and amortization related to the mining operations, even if the assets are not recorded at the operating segment level. See discussion of segment assets below. Corporate, Other and Eliminations includes the change in fair value of coal derivatives and coal trading activities, net; corporate overhead; land management; other support functions; and the elimination of intercompany transactions.

The asset amounts below represent an allocation of assets used in the segments' cash-generating activities. The amounts in Corporate, Other and Eliminations represent primarily corporate assets (cash, receivables, investments, plant, property and equipment) as well as unassigned coal reserves, above-market acquired sales contracts and other unassigned assets.

(in thousands)	PRB	APP	WBIT	Other Operating Segments	Corporate, Other and Eliminations	Consolidated
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**Three months ended March 31,
2012**

Revenues	\$	401,177	\$	469,058	\$	144,559	\$	24,857	\$	1,039,651
Income (loss) from operations		32,543		15,835		31,241		(3,750)		(21,788)
Total assets		2,263,517		4,640,344		752,197		940,245		1,568,815
Depreciation, depletion and amortization		41,223		76,017		18,600		3,687		439
Amortization of acquired sales contracts, net		(816)		(13,088)				(113)		
Capital expenditures		3,986		66,303		15,137		5,644		2,201

**Three months ended March 31,
2011**

Revenues	\$	393,113	\$	155,439	\$	324,386	\$		\$	872,938
Income from operations		46,874		26,892		54,394		(25,922)		102,238
Total assets		2,244,173		683,949		710,324		1,261,532		4,899,978
Depreciation, depletion and amortization		41,691		20,529		21,016				301
Amortization of acquired sales contracts, net		5,944								5,944
Capital expenditures		2,838		11,777		17,302				6,794

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A reconciliation of segment income from operations to consolidated income before income taxes follows:

	Three Months Ended March 31	
	2012	2011
	(In thousands)	
Income from operations	\$ 54,081	\$ 102,238
Interest expense	(74,772)	(34,580)
Interest income	1,021	746
Income before income taxes	\$ (19,670)	\$ 68,404

17. Supplemental Condensed Consolidating Financial Information

Pursuant to the indentures governing Arch Coal, Inc.'s senior notes, certain wholly-owned subsidiaries of the Company have fully and unconditionally guaranteed the senior notes on a joint and several basis. The following tables present condensed consolidating financial information for (i) the Company, (ii) the issuer of the senior notes, (iii) the guarantors under the senior notes, and (iv) the entities which are not guarantors under the senior notes (Arch Western Resources, LLC and its subsidiaries, Arch Receivable Company, LLC and the Company's subsidiaries outside the U.S.):

Table of Contents**Condensed Consolidating Statements of Income****Three Months Ended March 31, 2012**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenues	\$	\$ 498,728	\$ 540,923	\$	\$ 1,039,651
Costs, expenses and other					
Cost of sales	2,964	425,009	448,054	(25,156)	850,871
Depreciation, depletion and amortization	1,217	100,006	38,744	(1)	139,966
Amortization of acquired sales contracts, net		(13,201)	(816)		(14,017)
Selling, general and administrative expenses	18,642	1,987	12,046	(1,814)	30,861
Change in fair value of coal derivatives and coal trading activities, net		(3,613)			(3,613)
Other operating (income) expense, net	(3,110)	(37,700)	(4,659)	26,971	(18,498)
	19,713	472,488	493,369		985,570
Income from investment in subsidiaries	77,312			(77,312)	
Income from operations	57,599	26,240	47,554	(77,312)	54,081
Interest expense, net:					
Interest expense	(82,096)	(1,179)	(11,344)	19,847	(74,772)
Interest income	4,827	248	15,793	(19,847)	1,021
	(77,269)	(931)	4,449		(73,751)
Income (loss) before income taxes	(19,670)	25,309	52,003	(77,312)	(19,670)
Benefit from income taxes	(22,660)		1,581		(21,079)
Net income	2,990	25,309	50,422	(77,312)	1,409
Less: Net income attributable to noncontrolling interest	(203)				(203)
Net income attributable to Arch Coal	\$ 2,787	\$ 25,309	\$ 50,422	\$ (77,312)	\$ 1,206
Total comprehensive income	\$ 3,948	\$ 27,242	\$ 54,831	\$ (77,312)	\$ 8,709

Table of Contents**Condensed Consolidating Statements of Income****Three Months Ended March 31, 2011**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenues	\$	\$ 338,533	\$ 534,405	\$	\$ 872,938
Costs, expenses and other					
Cost of sales	3,279	251,884	423,323	(24,802)	653,684
Depreciation, depletion and amortization	672	43,277	39,588		83,537
Amortization of acquired sales contracts, net			5,944		5,944
Selling, general and administrative expenses	20,336	1,883	9,913	(1,697)	30,435
Change in fair value of coal derivatives and coal trading activities, net		(1,784)			(1,784)
Other operating (income) expense, net	(4,567)	(27,456)	4,408	26,499	(1,116)
	19,720	267,804	483,176		770,700
Income from investment in subsidiaries	125,003			(125,003)	
Income from operations	105,283	70,729	51,229	(125,003)	102,238
Interest expense, net:					
Interest expense	(40,621)	(714)	(10,982)	17,737	(34,580)
Interest income	3,742	296	14,445	(17,737)	746
	(36,879)	(418)	3,463		(33,834)
Income (loss) before income taxes	68,404	70,311	54,692	(125,003)	68,404
Benefit from income taxes	12,530				12,530
Net income	55,874	70,311	54,692	(125,003)	55,874
Less: Net income attributable to noncontrolling interest	(273)				(273)
Net income attributable to Arch Coal	\$ 55,601	\$ 70,311	\$ 54,692	\$ (125,003)	\$ 55,601
Total comprehensive income	\$ 66,372	\$ 70,253	\$ 52,949	\$ (125,003)	\$ 64,571

Table of Contents**Condensed Consolidating Balance Sheets**

March 31, 2012

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 35,196	\$ 308	\$ 82,266	\$	\$ 117,770
Restricted cash-retirement of ICG obligations	8,866				8,866
Receivables	46,832	20,771	295,844	(1,733)	361,714
Inventories		256,896	231,790		488,686
Other	108,080	79,817	14,186		202,083
Total current assets	198,974	357,792	624,086	(1,733)	1,179,119
Property, plant and equipment, net	29,966	6,367,590	1,495,177		7,892,733
Investment in subsidiaries	8,886,286			(8,886,286)	
Intercompany receivables	(1,443,557)	(41,436)	1,484,993		
Note receivable from Arch Western	225,000			(225,000)	
Other	450,008	626,788	16,470		1,093,266
Total other assets	8,117,737	585,352	1,501,463	(9,111,286)	1,093,266
Total assets	\$ 8,346,677	\$ 7,310,734	\$ 3,620,726	\$ (9,113,019)	\$ 10,165,118
Liabilities and Stockholders Equity					
Accounts payable	\$ 26,036	\$ 134,697	\$ 133,608	\$	\$ 294,341
Accrued expenses and other current liabilities	98,109	110,821	159,289	(1,733)	366,486
Current maturities of debt and short-term borrowings	10,876	1,180	90,300		102,356
Total current liabilities	135,021	246,698	383,197	(1,733)	763,183
Long-term debt	3,514,463	2,524	450,809		3,967,796
Note payable to Arch Coal			225,000	(225,000)	
Asset retirement obligations	891	142,014	289,715		432,620
Accrued pension benefits	21,409	4,001	23,968		49,378
Accrued postretirement benefits other than pension	13,731	6,272	22,781		42,784
Accrued workers compensation	21,350	45,823	6,839		74,012
Deferred income taxes	905,635	76,961			982,596
Other noncurrent liabilities	150,013	64,098	54,474		268,585
Total liabilities	4,762,513	588,391	1,456,783	(226,733)	6,580,954
Redeemable noncontrolling interest	11,739				11,739
Stockholders equity	3,572,425	6,722,343	2,163,943	(8,886,286)	3,572,425
Total liabilities and stockholders equity	\$ 8,346,677	\$ 7,310,734	\$ 3,620,726	\$ (9,113,019)	\$ 10,165,118

Table of Contents**Condensed Consolidating Balance Sheets**

December 31, 2011

(unaudited)

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Assets					
Cash and cash equivalents	\$ 61,375	\$ 332	\$ 76,442	\$	\$ 138,149
Restricted cash-retirement of ICG obligations	10,322				10,322
Receivables	65,187	22,037	383,572	(1,617)	469,179
Inventories		207,050	170,440		377,490
Other	81,732	83,122	22,780		187,634
Total current assets	218,616	312,541	653,234	(1,617)	1,182,774
Property, plant and equipment, net	21,241	6,187,658	1,524,251		7,733,150
Investment in subsidiaries	8,805,731			(8,805,731)	
Intercompany receivables	(1,457,864)	7,010	1,450,854		
Note receivable from Arch Western	225,000			(225,000)	
Other	184,266	1,019,948	13,156		1,217,370
Total other assets	7,757,133	1,026,958	1,464,010	(9,030,731)	1,217,370
Total assets	\$ 7,996,990	\$ 7,527,157	\$ 3,641,495	\$ (9,032,348)	\$ 10,133,294
Liabilities and Stockholders Equity					
Accounts payable	\$ 25,409	\$ 175,196	\$ 183,177	\$	\$ 383,782
Accrued expenses and other current liabilities	75,133	115,685	166,834	(1,617)	356,035
Current maturities of debt and short-term borrowings	172,564	1,987	106,300		280,851
Total current liabilities	273,106	292,868	456,311	(1,617)	1,020,668
Long-term debt	3,308,674	2,652	450,971		3,762,297
Note payable to Arch Coal			225,000	(225,000)	
Asset retirement obligations	877	140,861	305,046		446,784
Accrued pension benefits	19,198	4,203	24,843		48,244
Accrued postretirement benefits other than pension	13,843	6,271	22,195		42,309
Accrued workers compensation	17,272	48,111	6,565		71,948
Deferred income taxes	621,483	274,605			896,088
Other noncurrent liabilities	152,963	64,795	37,624		255,382
Total liabilities	4,407,416	834,366	1,528,555	(226,617)	6,543,720
Redeemable noncontrolling interest	11,534				11,534
Stockholders equity	3,578,040	6,692,791	2,112,940	(8,805,731)	3,578,040
Total liabilities and stockholders equity	\$ 7,996,990	\$ 7,527,157	\$ 3,641,495	\$ (9,032,348)	\$ 10,133,294

Table of Contents**Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2012****(unaudited)**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Cash provided by (used in) operating activities	\$ (18,534)	\$ 34,078	\$ 39,446	\$	\$ 54,990
Investing Activities					
Change in restricted cash	1,455				1,455
Capital expenditures	(1,177)	(73,657)	(18,437)		(93,271)
Proceeds from dispositions of property, plant and equipment		546	21,559		22,105
Purchases of investments and advances to affiliates	(3,619)	(3,488)		1,330	(5,777)
Additions to prepaid royalties		(4,818)	(3,444)		(8,262)
Cash used in investing activities	(3,341)	(81,417)	(322)	1,330	(83,750)
Financing Activities					
Payments to retire ICG debt		(1,330)			(1,330)
Net decrease in borrowings under lines of credit and commercial paper program	34,000				34,000
Net proceeds from other debt	(5,993)				(5,993)
Debt financing costs	(54)		(46)		(100)
Dividends paid	(23,327)				(23,327)
Issuance of common stock under incentive plans	5,131				5,131
Transactions with affiliates, net	(14,060)	47,315	(33,255)		
Cash provided by (used in) financing activities	(4,303)	47,315	(33,301)	(1,330)	8,381
Increase (decrease) in cash and cash equivalents	(26,178)	(24)	5,823		(20,379)
Cash and cash equivalents, beginning of period	61,374	332	76,443		138,149
Cash and cash equivalents, end of period	\$ 35,196	\$ 308	\$ 82,266	\$	\$ 117,770

Table of Contents**Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2011**

	Parent/Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
	(In thousands)			
Cash provided by (used in) operating activities	\$ (75,477)	\$ 144,796	\$ 16,826	\$ 86,145
Investing Activities				
Capital expenditures	(900)	(23,615)	(14,196)	(38,711)
Proceeds from dispositions of property, plant and equipment		502	14	516
Purchases of investments and advances to affiliates	(9,529)	(24,890)		(34,419)
Additions to prepaid royalties		(20,915)		(20,915)
Cash used in investing activities	(10,429)	(68,918)	(14,182)	(93,529)
Financing Activities				
Net decrease in borrowings under lines of credit and commercial paper program			3,681	3,681
Net proceeds from other debt	(5,161)			(5,161)
Debt financing costs			(8)	(8)
Dividends paid	(16,269)			(16,269)
Issuance of common stock under incentive plans	768			768
Transactions with affiliates, net	95,911	(75,893)	(20,018)	
Cash provided by (used in) financing activities	75,249	(75,893)	(16,345)	(16,989)
Increase (decrease) in cash and cash equivalents	(10,657)	(15)	(13,701)	(24,373)
Cash and cash equivalents, beginning of period	13,713	64	79,816	93,593
Cash and cash equivalents, end of period	\$ 3,056	\$ 49	\$ 66,115	\$ 69,220

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Weakness in the U.S. thermal coal markets impacted our first quarter results resulting from an unprecedented build in power generator coal stockpiles year to date, the continued erosion in natural gas prices and relatively soft global metallurgical demand. We expect U.S. coal consumption for power generation to decline by at least 75 million tons in 2012, as compared to 2011, due to unfavorable weather trends that have reduced power demand and contributed to a natural gas surplus. These factors have led to an increase in U.S. coal generator stockpiles to date in 2012. The industry has responded with supply reductions. Mine Safety and Health Administration data suggests that total domestic production decreased 14 million tons during the first quarter of 2012, and we expect further reductions as 2012 progresses.

In response to these market conditions, we further curtailed our production expectations for 2012 and we have taken steps to increase operational efficiency and productivity. In total, we expect to reduce annual volumes by 25 million tons in 2012 compared to originally planned levels. In the Powder River Basin, we idled one dragline, and placed another into reclamation efforts, and limited railcar loadings from the West loadout at the Black Thunder mine. In Appalachia, we delayed the startup of the longwall at the Mountain Laurel mine following the successful transition to the Cedar Grove seam, and closed five thermal operations and further curtailed production at other thermal mines. We are also taking steps to control costs by eliminating discretionary spending, reducing headcount and consolidating operations. We are controlling capital spending at thermal coal mines and controlling maintenance capital, but we are proceeding with metallurgical coal development projects, namely the Leer mine (previously known as the Tygart mine) in Appalachia, and supporting efforts to expand our coal exporting network.

We expect that coal exports will somewhat offset the weakness in domestic markets. The global cross-border hard coal trade through March is on pace to exceed the 1.2 billion-ton record set in 2011. More than 185 new coal-fueled plants are expected to come online in 2012, resulting in approximately 400 million tons of incremental annual coal demand. Momentum in global steel markets is also increasing, as steel output grew 6% during the first quarter of 2012 from the fourth quarter of 2011. We expect to export 12 million tons in 2012.

Items Affecting Comparability of Reported Results

The comparability of our operating results between the three months ended March 31, 2012 and 2011 is affected by the acquisition of ICG on June 15, 2011. To finance the acquisition, we received net proceeds of \$1.3 billion from the sale of our common stock and issued \$2.0 billion in aggregate principal amount of senior unsecured notes.

Results of Operations

Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011

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Summary. Our results during the first quarter of 2012 when compared to the first quarter of 2011 were impacted substantially by our production cutbacks in response to weak market conditions, which offset the impact of higher sales pricing in all regions.

Revenues. Our revenues consist of coal sales and revenues from our ADDCAR subsidiary acquired with ICG. The following table summarizes information about coal sales during the three months ended March 31, 2012 and compares it with the information for the three months ended March 31, 2011:

	Three Months Ended March 31		Increase (Decrease)	
	2012	2011	Amount	%
(Amounts in thousands, except per ton data and percentages)				
Coal sales	\$ 1,039,651	\$ 872,938	\$ 166,713	19.10%
Tons sold	35,660	36,608	(948)	(2.6)%
Coal sales realization per ton sold	\$ 29.15	\$ 23.85	\$ 5.30	22.2%

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Coal sales increased in the first quarter of 2012 from the first quarter of 2011, due to an increase in the overall average price per ton sold, the result of improved pricing on metallurgical-quality coal sold and the contribution from the ICG operations, including higher-priced metallurgical coal sales volumes, as well as the impact of changes in regional mix on our average coal sales realization. Coal sales revenues attributed to acquired ICG operations were \$237.2 million in the first quarter of 2012. These factors were offset by lower demand in all operating segments. We have provided more information about the tons sold and the coal sales realizations per ton by operating segment under the heading Operating segment results .

Costs, expenses and other. The following table summarizes costs, expenses and other components of operating income for the three months ended March 31, 2012 and compares it with the information for the three months ended March 31, 2011:

	Three Months Ended March 31		Increase (Decrease) in Net	
	2012	2011	Amount	%
	(in thousands, except percentages)			
Cost of sales	\$ 850,871	\$ 653,684	\$ (197,187)	(30.2)%
Depreciation, depletion and amortization	139,966	83,537	(56,429)	(67.5)
Amortization of acquired sales contracts, net	(14,017)	5,944	19,961	335.8
Selling, general and administrative expenses	30,861	30,435	(426)	(1.4)
Change in fair value of coal derivatives and coal trading activities, net	(3,613)	(1,784)	1,829	102.5
Other operating income, net	(18,498)	(1,116)	17,382	1,557.5
	\$ 985,570	\$ 770,700	\$ (214,870)	(27.9)%

Cost of coal sales. Our cost of sales increased in the first quarter of 2012 from the first quarter of 2011 primarily from the impact of the acquisition of the ICG operations, an increase in transportation costs as a result of the increase in export shipments, and an increase in sales-sensitive costs. We have provided more information about the performance and profitability of our operating segments under the heading Operating segment results .

Depreciation, depletion and amortization. When compared with the first quarter of 2011, higher depreciation, depletion and amortization costs in 2012 resulted primarily from the acquired ICG operations, partially offset by the impact of lower depreciation and amortization on assets amortized or depleted on the basis of tons produced, processed, or sold.

Amortization of acquired sales contracts, net. The fair values of acquired sales contracts are amortized over the tons of coal shipped during the term of the contracts. In the first quarter of 2012, amortization expense related to contracts we acquired in 2009 with the Jacobs Ranch operations in the PRB was offset by amortization income related to the contracts we acquired with the ICG operations. We expect net amortization income of acquired sales contracts, based upon expected shipments, to be approximately \$18.0 million in 2012.

Selling, general and administrative expenses. Selling, general and administrative expenses were essentially flat when compared with the first quarter of 2011. Our growth in 2012 has resulted in an increase in salary and benefit costs, travel costs, and other professional service fees. These were offset by a decrease in incentive compensation costs of \$2.7 million and the net obligation under the deferred compensation plan of \$1.7 million.

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Other operating income, net. When compared with 2011, other operating income, net increased in 2012 primarily from a gain of \$12.5 million on the sale of non-core business assets, as well contributions from the acquired ICG operations.

Operating segment results. The following table shows results by operating segment for three months ended March 31, 2012 and compares it with the information for the three months ended March 31, 2011:

	Three Months Ended March 31		Increase (Decrease)	
	2012	2011	\$	%
(in thousands, except per-ton and percentages)				
<i>Powder River Basin</i>				
Tons sold (in thousands)	27,215	28,830	(1,615)	(5.6)%
Coal sales realization per ton sold(1)	\$ 13.87	\$ 13.51	\$ 0.36	2.7%
Operating margin per ton sold(2)	\$ 1.15	\$ 1.60	\$ (0.45)	(28.1)%
Adjusted EBITDA(3) (in thousands)	\$ 74,183	\$ 93,716	\$ (19,533)	(20.8)%
<i>Appalachia</i>				
Tons sold (in thousands)	4,666	3,592	1,074	29.9%
Coal sales realization per ton sold(1)	\$ 88.23	\$ 80.92	\$ 7.31	9.0%
Operating margin per ton sold(2)	\$ 1.97	\$ 16.00	\$ (14.03)	(87.7)%
Adjusted EBITDA(3) (in thousands)	\$ 80,165	\$ 77,986	\$ 3,158	4.1%
<i>Western Bituminous</i>				
Tons sold (in thousands)	3,261	4,186	(925)	(22.1)%
Coal sales realization per ton sold(1)	\$ 36.77	\$ 34.87	\$ 1.90	5.4%
Operating margin per ton sold(2)	\$ 9.79	\$ 6.36	\$ 3.43	53.9%
Adjusted EBITDA(3) (in thousands)	\$ 50,820	\$ 47,420	\$ 2,422	5.1%

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(1) Coal sales prices per ton exclude certain transportation costs that we pass through to our customers. We use these financial measures because we believe the amounts as adjusted better represent the coal sales prices we achieved within our operating segments. Since other companies may calculate coal sales prices per ton differently, our calculation may not be comparable to similarly titled measures used by those companies. For 2012, transportation costs per ton were \$0.87 for the Powder River Basin, \$12.30 for Appalachia and \$7.01 for the Western Bituminous region. For 2011, transportation costs per ton were \$0.13 for the Powder River Basin, \$9.39 for Appalachia and \$0.25 for the Western Bituminous region.

(2) Operating margin per ton sold is calculated as coal sales revenues less cost of coal sales, depreciation, depletion and amortization and sales contract amortization divided by tons sold.

(3) Adjusted EBITDA is defined as net income attributable to the Company before the effect of net interest expense, income taxes, depreciation, depletion and amortization and the amortization of acquired sales contracts. Adjusted EBITDA may also be adjusted for items that may not reflect the trend of future results. Segment Adjusted EBITDA is reconciled to net income at the end of this Results of Operations section.

Powder River Basin Segment Adjusted EBITDA decreased in the first quarter of 2012 when compared to the first quarter of 2011, due to the lower sales volumes in the Powder River Basin from the production cutbacks in response to market conditions. Per-ton costs were also higher due to the lower production levels, which offset the impact of slightly higher per-ton selling prices.

Appalachia Segment Adjusted EBITDA increased slightly from the first quarter of 2011 primarily as a result of an increase in the volumes and pricing of metallurgical-quality coal sold. We sold 1.6 million tons of metallurgical-quality coal in the first quarter of 2012 compared to 1.4 million tons in the first quarter of 2011. The volume contributions from the acquired ICG operations were offset by the impact of unfavorable market conditions. The benefit from higher per-ton realizations, net of sales sensitive costs, in the first quarter of 2012 was offset by the impacts of lower production levels and the Mountain Laurel idling, which resulted in an increase on our average per-ton production costs, as well as approximately \$7 million in severance and closure related costs.

Western Bituminous Improved Segment Adjusted EBITDA, despite appreciably lower sales volumes, was due to improved pricing resulting from increased export shipments. Operating margins also improved as a result, but export sales also resulted in higher per-ton costs from the cost of moving coal to the point of sale.

Net interest expense. The following table summarizes our net interest expense for three months ended March 31, 2012 and compares it with the information for the three months ended March 31, 2011:

	Three Months Ended March 31		Increase (Decrease) in Net	
	2012	2011	Amount	%
(Amounts in thousands, except percentages)				
Interest expense, net:				
Interest expense	(74,772)	(34,580)	(40,192)	116.2%

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Interest income	1,021	746	275	36.9
	\$ (73,751)	\$ (33,834)	\$ (39,917)	118.0%

The increase in interest expense during the first quarter of 2012 when compared with the first quarter of 2011 is the result of the ICG acquisition financing.

Income taxes. Our effective income tax rate is sensitive to changes in and the relationship between annual profitability and the deduction for percentage depletion. The following table summarizes our income taxes for the three months ended March 31, 2012 and compares it with the information for the three months ended March 31, 2011:

	Three Months Ended March 31		Increase (Decrease) in Net	
	2012	2011	Income	%
(Amounts in thousands, except percentages)				
Provision for (benefit from) income taxes	\$ (21,079)	\$ 12,530	\$ 33,609	268.2%

The income tax provision in the first quarter of 2012 reflects our pretax loss combined with percentage depletion adjustments, including a tax benefit of \$5.4 million related to the recognition of tax benefits based on an approved change in accounting method relating to partnership deductions.

Table of Contents**Reconciliation of Segment Adjusted EBITDA to Net Income**

The discussion in Results of Operations includes references to our Adjusted EBITDA results. Adjusted EBITDA is defined as net income attributable to the Company before the effect of net interest expense, income taxes, depreciation, depletion and amortization and the amortization of acquired sales contracts. Adjusted EBITDA may also be adjusted for items that may not reflect the trend of future results. We believe that Adjusted EBITDA presents a useful measure of our ability to service and incur debt based on ongoing operations. Investors should be aware that our presentation of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies. The table below shows how we calculate Adjusted EBITDA.

	Three Months Ended March 31,	
	2012	2011
Reported Segment Adjusted EBITDA	\$ 205,172	\$ 219,122
Corporate and other(1)	(25,345)	(27,676)
Adjusted EBITDA	179,827	191,446
Depreciation, depletion and amortization	(139,966)	(83,537)
Amortization of acquired sales contracts, net	14,017	(5,944)
Interest expense	(74,772)	(34,580)
Interest income	1,021	746
(Provision for) benefit from income taxes	21,079	(12,530)
Net income attributable to Arch Coal	\$ 1,206	\$ 55,601

(1) Corporate and other Adjusted EBITDA includes primarily selling, general and administrative expenses, income from our equity investments, the change in fair value of coal derivatives and coal trading activities.

Liquidity and Capital Resources

Our primary sources of cash are coal sales to customers, borrowings under our credit facilities and other financing arrangements, and debt and equity offerings related to significant transactions. Excluding any significant mineral reserve acquisitions, we generally satisfy our working capital requirements and fund capital expenditures and debt-service obligations with cash generated from operations or borrowings under our lines of credit. The borrowings under these arrangements are classified as current if the underlying credit facilities expire within one year or if, based on cash projections and management plans, we do not have the intent to replace them on a long-term basis. Such plans are subject to change based on our cash needs.

On April 30, 2012, we received commitment letters with lending institutions to refinance certain of our indebtedness having near-term maturities and to increase our liquidity in order to execute on key long-term growth initiatives, particularly the development of our metallurgical coal properties. As part of the financing package, these lenders have agreed, subject to certain customary conditions, to enter into an amendment to our existing senior secured revolving credit facility which will, among other things, suspend our compliance with the debt-to-EBITDA ratio and other financial covenants in the existing credit agreement over the next 24 months and replace them with minimum performance targets at levels consistent with the current coal market environment. We will also receive a \$1 billion, six-year term loan facility, which will contain no financial maintenance covenants, and the maximum borrowing capacity of the revolving credit facility will be reduced from \$2 billion to \$1 billion. We will use the proceeds of the term loan to retire the outstanding \$450.0 million aggregate principal amount of 6 ¾% Senior Notes due 2013 issued by Arch Western Finance, LLC (Arch Western Finance), our indirect subsidiary.

On May 1, 2012, Arch Western Finance commenced a cash tender offer for any and all of its outstanding senior notes. In connection with the tender offer, Arch Western Finance is soliciting consents from the holders of the senior notes for certain proposed amendments to the indenture governing the notes that would eliminate most of the covenants and certain default provisions applicable to the senior notes, as well as reduce the minimum notice period in the optional redemption provision of the senior notes from 30 days to three days. If Arch Western Finance purchases less than all of the outstanding senior notes in the tender offer, it intends to redeem any senior notes that remain outstanding. The terms and conditions of the tender offer and consent solicitation are described in an Offer to Purchase and Consent Solicitation Statement (the Statement) and a related Consent and Letter of Transmittal (the Letter of Transmittal), which have been sent to holders of the senior notes. Arch Western Finance's obligations to accept any senior notes tendered and to pay the applicable consideration for them are set forth solely in the Statement and the Consent and Letter of Transmittal. This Quarterly Report on Form 10-Q is not an offer to purchase, a solicitation of an offer to sell, or a solicitation of consents with respect to any securities. Neither we nor Arch Western Finance is making any recommendation in connection with the tender offer and the consent solicitation. The Consent Solicitation expires on May 14, 2012, prior to which the consideration for each \$1,000 of principal is \$1,002.50. For notes tendered after the expiration of the Consent Solicitation and before May 29, 2012, the end of the tender offer, the consideration for each \$1,000 of principal is \$972.50.

Our strategy to maintaining our liquidity in the near term includes a reduction of our dividend from \$0.11 to \$0.03 per share.

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We believe that cash generated from operations and borrowings under our credit facilities or other financing arrangements will be sufficient to meet working capital requirements, anticipated capital expenditures and scheduled debt payments for at least the next several years. We manage our exposure to changing commodity prices for our non-trading, long-term coal contract portfolio through the use of long-term coal supply agreements. We enter into fixed price, fixed volume supply contracts with terms greater than one year with customers with whom we have historically had limited collection issues. Our ability to satisfy debt service obligations, to fund planned capital expenditures, to make acquisitions, to repurchase our common shares and to pay dividends will depend upon our future operating performance, which will be affected by prevailing economic conditions in the coal industry and financial, business and other factors, some of which are beyond our control.

	March 31, 2012	December 31, 2011
	(In thousands)	
Indebtedness to banks under credit facilities	\$ 515,300	\$ 481,300
6.75% senior notes (\$450.0 million face value) due July 1, 2013	450,809	450,971
8.75% senior notes (\$600.0 million face value) due August 1, 2016	589,463	588,974
7.00% senior notes due June 15, 2019 at par	1,000,000	1,000,000
7.25% senior notes due October 1, 2020 at par	500,000	500,000
7.25% senior notes due June 15, 2021 at par	1,000,000	1,000,000
Other	14,580	21,903
	4,070,152	4,043,148
Less current maturities of debt and short-term borrowings	102,356	280,851
Long-term debt	\$ 3,967,796	\$ 3,762,297

The Company's average borrowing level under lines of credit and short term borrowings was approximately \$489 million and \$60 million for the three months ended March 31, 2012 and 2011, respectively.

The following is a summary of cash provided by or used in each of the indicated types of activities during the three months ended March 31, 2012 and March 31, 2011.

	Three Months Ended March 31	
	2012	2011
	(in thousands)	
Cash provided by (used in):		
Operating activities	\$ 54,990	\$ 86,145
Investing activities	(83,750)	(93,529)
Financing activities	8,381	(16,989)

Cash provided by operating activities decreased in the first quarter of 2012 compared to 2011, driven by lower operating income.

We used less cash in investing activities in the first quarter of 2012 compared to the amount used in 2011, primarily due to the disposition of non-core assets and a decrease in investments and prepaid royalties in 2012. These factors were offset by an increase in capital expenditures, we spent approximately \$37 million during the first quarter of 2012 on the development of the Leer mine, previously the Tygart Valley mine.

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Cash provided by financing activities was \$8.4 million in the first quarter of 2012, compared to the cash used in financing activities during 2011 of \$17.0 million due to an increase in borrowings under lines of credit of \$29.3 million, partially offset by an increase in dividends paid of \$7.1 million, due to an increase in shares outstanding as a result of the shares issued in 2011 to finance the ICG acquisition and an increase of \$0.01 in the dividend rate.

Ratio of Earnings to Fixed Charges

The following table sets forth our ratios of earnings to combined fixed charges and preference dividends for the periods indicated:

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	Three Months Ended March 31	
	2012	2011
Ratio of earnings to combined fixed charges and preference dividends(1)	0.74x	2.84x

(1) Earnings consist of income from operations before income taxes and are adjusted to include only distributed income from affiliates accounted for on the equity method and fixed charges (excluding capitalized interest). Fixed charges consist of interest incurred on indebtedness, the portion of operating lease rentals deemed representative of the interest factor and the amortization of debt expense.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We manage our commodity price risk for our non-trading, long-term coal contract portfolio through the use of long-term coal supply agreements, and to a limited extent, through the use of derivative instruments. At March 31, 2012, our commitments for 2012 and 2013 are as follows:

	2012		2013	
	Tons	\$ per ton	Tons	\$ per ton
<u>Sales Volume (in millions tons)</u>				
Thermal	128 - 134			
Met	8 - 8.5			
Total	136 - 142.5			
<u>Powder River Basin</u>				
Committed, Priced	98.5	\$14.10	52.8	\$ 14.98
Committed, Unpriced	3.4		11.5	
Average Cash Cost		\$11.50 - \$12.50		
<u>Western Bituminous</u>				
Committed, Priced	13.9	\$36.32	10.3	\$ 39.63
Committed, Unpriced	0.1			
Average Cash Cost		\$24.00 - \$27.00		
<u>Appalachia</u>				
Committed, Priced Thermal	9.7	\$68.02	4.2	\$ 64.01
Committed, Unpriced Thermal	0.3			
Committed, Priced Metallurgical	6.0	\$126.64	0.2	\$ 111.13
Committed, Unpriced Metallurgical	0.3		0.1	
Average Cash Cost		\$68.00 - \$73.00		
<u>Illinois Basin</u>				
Committed, Priced	2.2	\$41.28	1.5	\$ 43.36
Average Cash Cost		\$ 32.00 - \$35.00		
<u>Corporate (in \$ millions)</u>				

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D,D&A	\$520 - \$550
S,G&A	\$125 - \$135
Interest Expense	\$290 - \$300
Capital Expenditures	\$410 - \$440

We are exposed to commodity price risk in our coal trading activities, which represents the potential future loss that could be caused by an adverse change in the market value of coal. Our coal trading portfolio included forward, swap and put and call option contracts at March 31, 2012. With respect to our coal trading portfolio at March 31, 2012 the potential for loss of future earnings resulting from changing coal prices was insignificant. The estimated future realization of the value of the trading portfolio is \$4.3 million of losses in the remainder of 2012 and \$2.2 million of losses in 2013.

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We monitor and manage market price risk for our trading activities with a variety of tools, including Value at Risk (VaR), position limits, management alerts for mark to market monitoring and loss limits, scenario analysis, sensitivity analysis and review of daily changes in market dynamics. Management believes that presenting high, low, end of year and average VaR is the best available method to give investors insight into the level of commodity risk of our trading positions. Illiquid positions, such as long-dated trades that are not quoted by brokers or exchanges, are not included in VaR.

VaR is a statistical one-tail confidence interval and down side risk estimate that relies on recent history to estimate how the value of the portfolio of positions will change if markets behave in the same way as they have in the recent past. While presenting VaR will provide a similar framework for discussing risk across companies, VaR estimates from two independent sources are rarely calculated in the same way. Without a thorough understanding of how each VaR model was calculated, it would be difficult to compare two different VaR calculations from different sources. The level of confidence is 95%. The time across which these possible value changes are being estimated is through the end of the next business day. A closed-form delta-neutral method used throughout the finance and energy sectors is employed to calculate this VaR. VaR is back tested to verify usefulness.

On average, portfolio value should not fall more than VaR on 95 out of 100 business days. Conversely, portfolio value declines of more than VaR should be expected, on average, 5 out of 100 business days. When more value than VaR is lost due to market price changes, VaR is not representative of how much value beyond VaR will be lost.

During the year ended March 31, 2012, VaR for our coal trading and risk management positions that are recorded at fair value through earnings ranged from under \$1.8 million to \$4.1 million. The linear mean of each daily VaR was \$3.0 million. The final VaR at March 31, 2012 was \$2.5 million. We have also entered into positions for risk management purposes for which we could not elect hedge accounting.

We are also exposed to the risk of fluctuations in cash flows related to our purchase of diesel fuel. We expect to use approximately 75 million to 80 million gallons of diesel fuel annually in our operations. We enter into forward physical purchase contracts, as well as purchased heating oil options, to reduce volatility in the price of diesel fuel for our operations. At March 31, 2012 the Company had protected the price of approximately 85% of its expected purchases for remainder of fiscal year 2012 and approximately 55% of our purchases for the first quarter of 2013, mostly through the use of the derivative instruments noted above. The heating oil options do not qualify for hedge accounting. A \$0.25 per gallon decrease in the price of heating oil would not result in an increase in our expense related to the heating oil derivatives.

We are exposed to market risk associated with interest rates due to our existing level of indebtedness. At March 31, 2012, of our \$4.1 billion principal amount of debt outstanding, approximately \$515 million of outstanding borrowings have interest rates that fluctuate based on changes in the market rates. An increase in the interest rates related to these borrowings of 25 basis points would result in an annualized increase in interest expense of \$1.3 million, based on borrowing levels at March 31, 2012.

Item 4. Controls and Procedures.

We performed an evaluation under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2012. Based on that evaluation, our management, including our chief executive officer and chief financial officer, concluded that the disclosure controls and

procedures were effective as of such date.

On June 15, 2011, we completed our acquisition of ICG. While management does not expect significant changes to our financial reporting processes and related internal controls as a result of the ICG acquisition, it will take time for us to fully complete the integration of ICG's information systems and personnel with ours. Integration efforts are continuing as of March 31, 2012.

There have not been any other significant changes in our internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

In addition to the following matters, we are involved in various claims and legal actions arising in the ordinary course of business, including employee injury claims. After conferring with counsel, it is the opinion of management that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on our consolidated financial condition, results of operations or liquidity.

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Permit Litigation Matters

Surface mines at our Mingo Logan and Coal-Mac mining operations were identified in an existing lawsuit brought by the Ohio Valley Environmental Coalition (OVEC) in the U.S. District Court for the Southern District of West Virginia as having been granted Clean Water Act § 404 permits by the Army Corps of Engineers (Corps), allegedly in violation of the Clean Water Act and the National Environmental Policy Act. The lawsuit, brought by OVEC in September 2005, originally was filed against the Corps for permits it had issued to four subsidiaries of a company unrelated to us or our operating subsidiaries. The suit claimed that the Corps had issued permits to the subsidiaries of the unrelated company that did not comply with the National Environmental Policy Act and violated the Clean Water Act.

The court ruled on the claims associated with those four permits in orders of March 23 and June 13, 2007. In the first of those orders, the court rescinded the four permits, finding that the Corps had inadequately assessed the likely impact of valley fills on headwater streams and had relied on inadequate or unproven mitigation to offset those impacts. In the second order, the court entered a declaratory judgment that discharges of sediment from the valley fills into sediment control ponds constructed in-stream to control that sediment must themselves be permitted under a different provision of the Clean Water Act, § 402, and meet the effluent limits imposed on discharges from these ponds. Both of the district court rulings were appealed to the U.S. Court of Appeals for the Fourth Circuit.

Before the court entered its first order, the plaintiffs were permitted to amend their complaint to challenge the Coal-Mac and Mingo Logan permits. Plaintiffs sought preliminary injunctions against both operations, but later reached agreements with our operating subsidiaries that have allowed mining to progress in limited areas while the district court's rulings were on appeal. The claims against Coal-Mac were thereafter dismissed.

In February 2009, the Fourth Circuit reversed the District Court. The Fourth Circuit held that the Corps' jurisdiction under Section 404 of the Clean Water Act is limited to the narrow issue of the filling of jurisdictional waters. The court also held that the Corps' findings of no significant impact under the National Environmental Policy Act and no significant degradation under the Clean Water Act are entitled to deference. Such findings entitle the Corps to avoid preparing an environmental impact statement, the absence of which was one issue on appeal. These holdings also validated the type of mitigation projects proposed by our operations to minimize impacts and comply with the relevant statutes. Finally, the Fourth Circuit found that stream segments, together with the sediment ponds to which they connect, are unitary waste treatment systems, not waters of the United States, and that the Corps had not exceeded its authority in permitting them.

OVEC sought rehearing before the entire appellate court, which was denied in May, 2009, and the decision was given legal effect in June 2009. An appeal to the U.S. Supreme Court was then filed in August 2009. On August 3, 2010 OVEC withdrew its appeal.

Mingo Logan filed a motion for summary judgment with the district court in July 2009, asking that judgment be entered in its favor because no outstanding legal issues remained for decision as a result of the Fourth Circuit's February 2009 decision. By a series of motions, the United States obtained extensions and stays of the obligation to respond to the motion in the wake of its letters to the Corps dated September 3 and October 16, 2009 (discussed below). By order dated April 22, 2010, the District Court stayed the case as to Mingo Logan for the shorter of either six months or the completion of the U.S. Environmental Protection Agency's (the EPA) proposed action to deny Mingo Logan the right to use its Corps permit (as discussed below). The stay currently remains in effect.

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On October 15, 2010, the United States moved to extend the existing stay for an additional 120 days (until February 22, 2011) while the EPA Administrator reviewed the Recommended Determination issued by the EPA Region 3. By Memorandum Opinion and Order dated November 2, 2010, the court granted the United States motion. On January 13, 2011, the EPA issued its Final Determination to withdraw the specification of two of the three watersheds as a disposal site for dredged or fill material approved under the current Section 404 permit. The court has been notified of the Final Determination and by order dated March 21, 2011 stayed further proceedings in the case until further order of the court, in light of the challenge to the EPA's Final Determination currently pending in federal court in Washington, DC. As described more fully below, the federal court in Washington DC, by Memorandum and Opinion and separate Order, each dated March 23, 2012, granted Mingo Logan's motion for summary judgment, vacated EPA's Final Determination and found valid and in full force Mingo Logan's Section 404 permit. On April 5, 2012, Mingo Logan moved to lift the stay referenced above. The motion is pending before the court.

EPA Actions Related to Water Discharges from the Spruce Permit

By letter of September 3, 2009, the EPA asked the Corps of Engineers to suspend, revoke or modify the existing permit it issued in January 2007 to Mingo Logan under Section 404 of the Clean Water Act, claiming that new information and circumstances have arisen which justify reconsideration of the permit. By letter of September 30, 2009, the Corps of Engineers advised the EPA that it would not reconsider its decision to issue the permit. By letter of October 16, 2009, the EPA advised the Corps that it has reason to

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believe that the Mingo Logan mine will have unacceptable adverse impacts to fish and wildlife resources and that it intends to issue a public notice of a proposed determination to restrict or prohibit discharges of fill material that already are approved by the Corps permit. By federal register publication dated April 2, 2010, the EPA issued its Proposed Determination to Prohibit, Restrict or Deny the Specification, or the Use for Specification of an Area as a Disposal Site: Spruce No. 1 Surface Mine, Logan County, WV pursuant to Section 404(c) of the Clean Water Act, the EPA accepted written comments on its proposed action (sometimes known as a veto proceeding), through June 4, 2010 and conducted a public hearing, as well, on May 18, 2010. We submitted comments on the action during this period. On September 24, 2010, the EPA Region 3 issued a Recommended Determination to the EPA Administrator recommending that the EPA prohibit the placement of fill material in two of the three watersheds for which filling is approved under the current Section 404 permit. Mingo Logan, along with the Corps, West Virginia DEP and the mineral owner, engaged in a consultation with the EPA as required by the regulations, to discuss corrective action to address the unacceptable adverse effects identified. On January 13, 2011, the EPA issued its Final Determination pursuant to Section 404(c) of the Clean Water Act to withdraw the specification of two of the three watersheds approved in the current Section 404 permit as a disposal site for dredged or fill material. By separate action, Mingo Logan sued the EPA on April 2, 2010 in federal court in Washington, D.C. seeking a ruling that the EPA has no authority under the Clean Water Act to veto a previously issued permit (Mingo Logan Coal Company, Inc. v. USEPA, No. 1:10-cv-00541(D.D.C.)). The EPA moved to dismiss that action, and we responded to that motion.

Pursuant to a scheduling order for summary disposition of the case, motions and cross-motions for summary judgment by both parties were filed. On November 30, 2011, the court heard arguments from the parties limited only to the threshold issue of whether the EPA had the authority under Section 404(c) of the Clean Water Act to withdraw the specification of the disposal site after the Corps had already issued a permit under Section 404(a). The court deferred consideration of the remaining issue (i.e. whether the EPA's Final Determination is otherwise lawful) until after consideration of the threshold issue. On March 23, 2012, the court entered an Order and a Memorandum Opinion granting Mingo Logan's motion for summary judgment, denying EPA's cross-motion for summary judgment, vacating the Final Determination and ordering that Mingo Logan's Section 404 permit remains valid and in full force. The order entering judgment for Mingo Logan and against EPA is final and appealable.

Allegheny Energy Contract Matter

Allegheny Energy Supply (Allegheny), the sole customer of coal produced at our subsidiary Wolf Run Mining Company's (Wolf Run) Sycamore No. 2 mine, filed a lawsuit against Wolf Run, Hunter Ridge Holdings, Inc. (Hunter Ridge), and ICG in state court in Allegheny County, Pennsylvania on December 28, 2006, and amended its complaint on April 23, 2007. Allegheny claimed that Wolf Run breached a coal supply contract when it declared force majeure under the contract upon idling the Sycamore No. 2 mine in the third quarter of 2006, and that Wolf Run continued to breach the contract by failing to ship in volumes referenced in the contract. The Sycamore No. 2 mine was idled after encountering adverse geologic conditions and abandoned gas wells that were previously unidentified and unmapped.

After extensive searching for gas wells and rehabilitation of the mine, it was re-opened in 2007, but with notice to Allegheny that it would necessarily operate at reduced volumes in order to safely and effectively avoid the many gas wells within the reserve. The amended complaint also alleged that the production stoppages constitute a breach of the guarantee agreement by Hunter Ridge and breach of certain representations made upon entering into the contract in early 2005. Allegheny voluntarily dropped the breach of representation claims later. Allegheny claimed that it would incur costs in excess of \$100 million to purchase replacement coal over the life of the contract. ICG, Wolf Run and Hunter Ridge answered the amended complaint on August 13, 2007, disputing all of the remaining claims.

On November 3, 2008, ICG, Wolf Run and Hunter Ridge filed an amended answer and counterclaim against the plaintiffs seeking to void the coal supply agreement due to, among other things, fraudulent inducement and conspiracy. On September 23, 2009, Allegheny filed a second amended complaint alleging several alternative theories of liability in its effort to extend contractual liability to ICG, which was not a party to the original contract and did not exist at the time Wolf Run and Allegheny entered into the contract. No new substantive claims were asserted.

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ICG answered the second amended complaint on October 13, 2009, denying all of the new claims. The Company's counterclaim was dismissed on motion for summary judgment entered on May 11, 2010. Allegheny's claims against ICG were also dismissed by summary judgment, but the claims against Wolf Run and Hunter Ridge were not. The court conducted a non-jury trial of this matter beginning on January 10, 2011 and concluding on February 1, 2011.

At the trial, Allegheny presented its evidence for breach of contract and claimed that it is entitled to past and future damages in the aggregate of between \$228 million and \$377 million. Wolf Run and Hunter Ridge presented their defense of the claims, including evidence with respect to the existence of force majeure conditions and excuse under the contract and applicable law. Wolf Run and Hunter Ridge presented evidence that Allegheny's damages calculations were significantly inflated because it did not seek to determine damages as of the time of the breach and in some instances artificially assumed future nondelivery or did not take into account the apparent requirement to supply coal in the future. On May 2, 2011, the trial court entered a Memorandum and Verdict determining that Wolf Run had breached the coal supply contract and that the performance shortfall was not excused by force majeure. The trial court awarded total damages and interest in the amount of \$104.1 million. ICG and Allegheny filed post-verdict

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motions in the trial court and on August 23, 2011, the court denied the parties' motions. The court entered a final judgment on August 25, 2011, in the amount of \$104.1 million, which included pre-judgment interest. The parties appealed the lower court's decision to the Superior Court of Pennsylvania. Wolf Run and Hunter Ridge have filed an appeal bond in the amount of \$124.9 million. Briefing is complete and oral argument is scheduled for May 16, 2012.

Saratoga Class Action Matter

On January 7, 2008, Saratoga Advantage Trust (Saratoga) filed a class action lawsuit in the U.S. District Court for the Southern District of West Virginia against ICG and certain of its officers and directors seeking unspecified damages. The complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, based on alleged false and misleading statements in the registration statements filed in connection with ICG's November 2005 reorganization and December 2005 public offering of common stock. In addition, the complaint challenges other of ICG's public statements regarding its operating condition and safety record. On July 6, 2009, Saratoga filed an amended complaint asserting essentially the same claims but seeking to add an individual co-plaintiff. ICG has filed a motion to dismiss the amended complaint. In June 2011, ICG agreed to settle this matter for a total of \$1.375 million. On August 1, 2011, the court issued its order preliminarily approving settlement and conducted a settlement fairness hearing on November 14, 2011. The matter is pending Court approval.

ICG Eastern

On June 11, 2010, the West Virginia Department of Environmental Protection (WVDEP) filed suit against ICG Eastern, LLC (ICG Eastern) alleging violations of the West Virginia Water Pollution Control/National Pollutant Discharge Elimination System (WVNPDES) and Surface Mine Permits for ICG Eastern's Birch River surface mine. The WVDEP alleges that ICG Eastern has failed to fully comply with the effluent limits for aluminum, manganese, pH, iron and selenium contained in its WVNPDES permit. The complaint further alleges that violations of the WVNPDES permit effluent limits have caused violations of water quality standards for the same parameters in the streams receiving the discharges from this mine. The WVDEP also alleges that violations of the effluent limits in the WVNPDES permits are also violations of the regulations governing surface mining in West Virginia. ICG Eastern and the WVDEP executed a settlement agreement that will require ICG Eastern to pay a monetary penalty of \$0.2 million and accept the imposition of a compliance schedule related to selenium and other water quality parameters. The settlement agreement was submitted to the Webster County Circuit Court on December 30, 2010, was made available for public comment by the WVDEP and was thereafter entered by the court on April 18, 2011. The settlement agreement resolves all of the WVDEP's claims in the suit. In a supplemental consent decree, WVDEP and ICG negotiated and agreed to a resolution related to certain alleged selenium effluent limit violations beginning after April 5, 2010 which were reserved from the original consent decree due to both administrative appeal board and state circuit court stays. The court approved and entered the supplemental consent decree by order dated November 4, 2011 and filed November 7, 2011.

ICG Hazard

The Sierra Club, on December 3, 2010, filed a Notice of Intent (NOI) to sue ICG Hazard, LLC (Hazard) alleging violations of the Clean Water Act and the Surface Mining Control and Reclamation Act of 1977 at Hazard's Thunder Ridge surface mine. The NOI, which was supplemented by a revised filing on February 24, 2011, claims that Hazard is discharging selenium and contributing to conductivity levels in the receiving streams in violation of state and federal regulations. On May 24, 2011, the Sierra Club sued Hazard in U.S. District Court for the Eastern District of Kentucky under the Citizens Suit provisions of the Clean Water Act and the Surface Mining Control and Reclamation Act seeking civil penalties, injunctive relief and attorneys' fees. On February 17, 2012, ICG Hazard filed a motion for summary judgment. Also on February 17,

2012, the Sierra Club filed a competing motion for summary judgment.

Kentucky Energy and Environment Cabinet

On December 3, 2010, the Kentucky Energy and Environment Cabinet (Cabinet) filed suit against Hazard, ICG Knott County, LLC, ICG East Kentucky, LLC and Powell Mountain Energy, LLC (collectively, KY Operations) alleging that the KY Operations failed to comply with the terms and conditions of the Kentucky Pollutant Discharge Elimination System (KPDES) permits issued by the Cabinet s Division of Water to the KY Operations. Among the claims lodged by the Cabinet were allegations that contract water monitoring laboratories retained by the KY Operations did not adhere to the practices and procedures required for conducting KPDES monitoring, the contract laboratories failed to properly document and maintain records of the monitoring and the KY Operations submitted quarterly Discharge Monitoring Reports that sometimes contained inaccurate, incomplete and erroneous information. The KY Operations and the Cabinet entered a proposed Consent Judgment contemporaneously with the filing of the complaint that, if approved by the Franklin County (KY) Circuit Court, will require the KY Operations to pay a monetary penalty of \$0.4 million, to prepare and implement a Corrective Action Plan that corrects the deficiencies in the respective KPDES monitoring programs, to identify the responsible corporate officers for each KPDES permit and to provide specific detailed information in support

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of the Discharge Monitoring Reports to be filed for the fourth quarter 2010 and first quarter 2011. Final resolution of this matter is pending approval by the court. On February 11, 2011, the court entered an order allowing certain anti-mining groups to intervene in the action to contest the validity of the Consent Judgment. The hearing on the entry of the Consent Judgment was held beginning August 30, 2011 and the matter is pending a decision from the court.

By letter dated June 28, 2011, Appalachian Voices, Inc., Waterkeeper Alliance, Inc., Kentuckians for the Commonwealth, Inc., Kentucky Riverkeeper, Inc., Ms. Pat Banks, Ms. Lanny Evans, Mr. Thomas H. Bonny, and Mr. Winston Merrill Combs (collectively, Appalachian Voices) filed a NOI to sue the KY Operations for alleged violations of the Clean Water Act. The NOI claims that ICG has violated and continues to violate effluent standards or limitations under the Clean Water Act in reference to KPDES Coal General Permit. The NOI also alleges a lack of diligent prosecution related to the lawsuit filed by the Kentucky Energy and Environment Cabinet (as referenced and described above). On October 25, 2011, Appalachian Voices sued the KY Operations in U.S. District Court for the Eastern District of Kentucky under the Citizens Suit provisions of the Clean Water Act seeking civil penalties, injunctive relief and attorneys fees.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In September 2006, our board of directors authorized a share repurchase program for the purchase of up to 14,000,000 shares of our common stock. There is no expiration date on the current authorization, and we have not made any decisions to suspend or cancel purchases under the program. As of March 31, 2012, there were [] shares of our common stock available for purchase under this program. We did not purchase any shares of our common stock under this program during the quarter ended March 31, 2012. Based on the closing price of our common stock as reported on the New York Stock Exchange on April [], 2012, the approximate dollar value of our common stock that may be purchased under this program was \$XX million.

Item 4. Mine Safety Disclosures

The statement concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Quarterly Report on Form 10-Q for the period ended March 31, 2012.

Item 6. Exhibits.

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q:

- 10.1 Form of Non-Qualified Stock Option Agreement
- 10.2 Form of Restricted Stock Unit Contract
- 10.3 Form of Restricted Stock Unit Contract for Non-Employee Directors
- 10.4 Form of Performance Unit Contract
- 12.1 Computation of ratio of earnings to combined fixed charges and preference dividends.

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31.1	Rule 13a-14(a)/15d-14(a) Certification of John Eaves.
31.2	Rule 13a-14(a)/15d-14(a) Certification of John T. Drexler.
32.1	Section 1350 Certification of John Eaves.
32.2	Section 1350 Certification of John T. Drexler.
95	Mine Safety Disclosure Exhibit
101	Interactive Data File

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Arch Coal, Inc.

By:

/s/ John T. Drexler
John T. Drexler
Senior Vice President and Chief Financial Officer

May 10, 2012