

### Management's Responsibility for Financial Statements

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements and all other information in the Annual Report. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the estimates, judgements and assumptions necessary to prepare the consolidated financial statements in accordance with Canadian generally accepted accounting principles. It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with the consolidated financial statements.

In fulfilling its responsibilities, management has established and maintains systems of internal controls. Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and preparation of the financial statements in accordance with Canadian generally accepted accounting principles. These systems include controls to provide reasonable assurance that resources are safeguarded from material loss or inappropriate use, that transactions are authorized, recorded and reported properly and that financial records are reliable for preparing the consolidated financial statements. Internal auditors, who are employees of the Company, review and evaluate internal controls on management's behalf. The consolidated financial statements have been audited by the independent auditors, Deloitte & Touche LLP, in accordance with generally accepted auditing standards. Their report follows.

The Board of Directors, acting through an Audit Committee which is comprised solely of directors who are not employees of the Company, is responsible for determining that management fulfils its responsibility for financial reporting and internal control. This responsibility is carried out through periodic meetings with senior officers, financial management, internal audit and the independent auditors to discuss audit activities, the adequacy of internal financial controls and financial reporting matters. The Audit Committee has reviewed these consolidated financial statements and the Management's Discussion and Analysis and has recommended their approval by the Board of Directors prior to their inclusion in this Annual Report.



**Jürgen Schreiber**  
*President and Chief Executive Officer*



**Brad Lukow**  
*Executive Vice-President and Chief Financial Officer*

## Auditors' Report

### To the Shareholders of Shoppers Drug Mart Corporation

We have audited the consolidated balance sheets of Shoppers Drug Mart Corporation as at January 3, 2009 and December 29, 2007 and the consolidated statements of earnings, retained earnings, comprehensive income and accumulated other comprehensive (loss) income and cash flows for the 53 and 52 week periods, respectively, then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Shoppers Drug Mart Corporation as at January 3, 2009 and December 29, 2007 and the results of its operations and its cash flows for the 53 and 52 week periods, respectively, then ended in accordance with Canadian generally accepted accounting principles.



**Chartered Accountants,  
Licensed Public Accountants**

TORONTO, ONTARIO  
FEBRUARY 12, 2009

## Consolidated Statements of Earnings

53 weeks ended January 3, 2009 and 52 weeks ended December 29, 2007  
(in thousands of dollars, except per share amounts)

	2008	2007
<b>Sales</b>	<b>\$ 9,422,911</b>	\$ 8,478,382
<b>Operating expenses</b>		
Cost of goods sold and other operating expenses (Note 2)	<b>8,335,038</b>	7,520,033
Amortization	<b>205,371</b>	172,075
<b>Operating income</b>	<b>882,502</b>	786,274
Interest expense (Note 4)	<b>63,952</b>	52,873
<b>Earnings before income taxes</b>	<b>818,550</b>	733,401
<b>Income taxes</b> (Notes 2 and 5)		
Current	<b>254,159</b>	249,834
Future	<b>(821)</b>	(6,874)
	<b>253,338</b>	242,960
<b>Net earnings</b>	<b>\$ 565,212</b>	\$ 490,441
<b>Net earnings per common share</b> (Note 13)		
Basic	<b>\$ 2.60</b>	\$ 2.27
Diluted	<b>\$ 2.60</b>	\$ 2.26

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

## Consolidated Statements of Retained Earnings

53 weeks ended January 3, 2009 and 52 weeks ended December 29, 2007  
(in thousands of dollars)

	2008	2007
<b>Retained earnings, beginning of period as reported</b>	<b>\$ 1,580,888</b>	\$ 1,225,682
Impact of the adoption of new accounting standard, Handbook Section 3031, Inventories (Note 2)	<b>(21,337)</b>	(18,150)
Retained earnings, beginning of period as restated	<b>1,559,551</b>	1,207,532
Net earnings	<b>565,212</b>	490,441
Dividends	<b>(186,679)</b>	(138,398)
Premium on share capital purchased for cancellation (Note 13)	<b>(61)</b>	(24)
<b>Retained earnings, end of period</b>	<b>\$ 1,938,023</b>	\$ 1,559,551

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

## Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive (Loss) Income

53 weeks ended January 3, 2009 and 52 weeks ended December 29, 2007  
(in thousands of dollars)

	2008	2007
<b>Net earnings</b>	<b>\$ 565,212</b>	<b>\$ 490,441</b>
<b>Other comprehensive loss, net of tax</b>		
Change in unrealized gain/loss on interest rate derivatives (net of tax of \$1,605 (2007 – \$65))	(3,148)	24
Change in unrealized gain/loss on equity forward derivatives (net of tax of \$167 (2007 – \$12))	(337)	(23)
Amount of previously unrealized gain/loss recognized in earnings during the period (net of tax of \$145 (2007 – \$82))	(204)	(160)
<b>Other comprehensive loss</b>	<b>(3,689)</b>	<b>(159)</b>
<b>Comprehensive income</b>	<b>\$ 561,523</b>	<b>\$ 490,282</b>
<b>Accumulated other comprehensive income, beginning of period</b>	<b>\$ 247</b>	<b>\$ 406</b>
Other comprehensive loss	(3,689)	(159)
<b>Accumulated other comprehensive (loss) income, end of period (Note 17)</b>	<b>\$ (3,442)</b>	<b>\$ 247</b>

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

## Consolidated Balance Sheets

As at January 3, 2009 and December 29, 2007  
(in thousands of dollars)

	2008	2007
<b>Assets</b>		
Current		
Cash	\$ 36,567	\$ 27,588
Accounts receivable	448,476	372,306
Inventory (Note 2)	1,743,253	1,545,599
Income taxes recoverable	8,835	-
Future income taxes (Notes 2 and 5)	83,279	69,952
Prepaid expenses and deposits (Note 3)	64,054	134,692
	<b>2,384,464</b>	2,150,137
Property and equipment (Note 6)	1,442,135	1,126,513
Deferred costs (Note 7)	47,213	32,966
Goodwill (Note 8)	2,427,239	2,245,441
Other intangible assets (Note 9)	97,813	57,930
Other assets	20,442	8,990
<b>Total assets</b>	<b>\$ 6,419,306</b>	<b>\$ 5,621,977</b>
<b>Liabilities</b>		
Current		
Bank indebtedness (Note 10)	\$ 240,844	\$ 225,152
Commercial paper (Notes 10 and 16)	339,957	543,847
Short-term debt (Note 10)	197,845	-
Accounts payable and accrued liabilities	1,018,505	990,545
Income taxes payable (Note 2)	-	65,100
Dividends payable	46,709	34,686
Current portion of long-term debt (Note 11)	-	298,990
	<b>1,843,860</b>	2,158,320
Long-term debt (Note 11)	647,250	-
Other long-term liabilities (Note 12)	303,117	244,657
Future income taxes (Note 5)	46,988	30,171
	<b>2,841,215</b>	2,433,148
Associate interest	118,678	113,119
<b>Shareholders' equity</b>		
Share capital (Note 13)	1,514,207	1,506,020
Contributed surplus (Note 14)	10,625	9,892
Accumulated other comprehensive (loss) income (Note 17)	(3,442)	247
Retained earnings (Note 2)	1,938,023	1,559,551
	<b>1,934,581</b>	1,559,798
	<b>3,459,413</b>	3,075,710
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,419,306</b>	<b>\$ 5,621,977</b>

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

On behalf of the Board of Directors:



**Jürgen Schreiber**  
Director



**David M. Williams**  
Director

## Consolidated Statements of Cash Flows

53 weeks ended January 3, 2009 and 52 weeks ended December 29, 2007  
(in thousands of dollars)

	2008	2007
<b>Operating activities</b>		
Net earnings (Note 2)	\$ 565,212	\$ 490,441
Items not affecting cash		
Amortization	219,955	181,418
Future income taxes (Note 2)	(821)	(6,874)
Loss on disposal of property and equipment	3,436	4,165
Stock-based compensation (Note 14)	1,498	3,544
	<b>789,280</b>	672,694
Net change in non-cash working capital balances (Note 15)	<b>(325,248)</b>	(134,069)
Increase in other long-term liabilities	45,609	48,464
Store opening costs	<b>(30,652)</b>	(22,031)
Cash flows from operating activities	<b>478,989</b>	565,058
<b>Investing activities</b>		
Purchase of property and equipment	<b>(521,665)</b>	(395,526)
Proceeds from disposition of property and equipment	24,690	18,014
Business acquisitions (Note 3)	<b>(243,901)</b>	(139,833)
Deposits (Note 3)	88,522	(93,688)
Other assets	<b>(12,212)</b>	(1,714)
Cash flows used in investing activities	<b>(664,566)</b>	(612,747)
<b>Financing activities</b>		
Bank indebtedness, net (Note 10)	15,692	90,665
Commercial paper, net (Note 10)	<b>(203,350)</b>	40,800
Issuance of short-term debt (Note 10)	200,000	-
Issuance of Series 2 notes (Note 11)	450,000	-
Revolving term debt, net (Note 11)	200,000	-
Repayment of Series 1 notes (Note 11)	<b>(300,000)</b>	-
Financing costs incurred	<b>(6,050)</b>	(20)
Associate interest	5,559	(3,530)
Proceeds from shares issued for stock options exercised	7,144	13,710
Repayment of share purchase loans	288	325
Repurchase of share capital	(71)	(29)
Dividends paid	<b>(174,656)</b>	(129,509)
Cash flows from financing activities	<b>194,556</b>	12,412
<b>Increase (decrease) in cash</b>	<b>8,979</b>	(35,277)
<b>Cash, beginning of period</b>	<b>27,588</b>	62,865
<b>Cash, end of period</b>	<b>\$ 36,567</b>	<b>\$ 27,588</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ 63,893	\$ 50,596
Income taxes paid	\$ 327,184	\$ 280,393

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

## Notes to the Consolidated Financial Statements

January 3, 2009 and December 29, 2007 (in thousands of dollars, except per share data)

### 1. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

#### Description of the Business

Shoppers Drug Mart Corporation (the "Company") is a licensor of approximately 1,151 Shoppers Drug Mart/Pharmaprix full-service retail drug stores across Canada. The Shoppers Drug Mart®/Pharmaprix® stores are licensed to Associate-owners ("Associates"). In addition, the Company owns and operates 66 Shoppers Home Health Care® stores. Under the Canadian Institute of Chartered Accountants' ("CICA") Accounting Guideline 15, "Consolidation of Variable Interest Entities", the Company consolidates the Associate-owned stores.

The individual Associate-owned stores that comprise the Company's store network are variable interest entities ("VIEs") and the Company is the primary beneficiary. As such, the Associate-owned stores are subject to consolidation by the Company. The Associate-owned stores remain separate legal entities and consolidation of the Associate-owned stores has no impact on the underlying risks facing the Company.

The Company had an arrangement with an independent trust (the "Trust") to provide loans to Associates to facilitate their purchase of inventory and fund their working capital requirements. The Trust's activities were financed through the issuance of short-term, asset-backed notes to third-party investors. The Trust was a VIE and the Company was the primary beneficiary. As such, the Trust was subject to consolidation by the Company. The results of operations of the Trust have been included in the Company's consolidated results of operations until June 10, 2008, when the arrangement with the Trust was terminated. See Note 16 for further discussion related to the Trust.

#### Fiscal Year

The fiscal year of the Company consists of a 52 or 53 week period ending on the Saturday closest to December 31. The Company's 2008 and 2007 fiscal years consisted of 53 and 52 week periods, respectively.

#### Basis of Consolidation

The consolidated financial statements include the accounts of Shoppers Drug Mart Corporation, its subsidiaries, the Associate-owned stores that comprise the Company's store network, and the results of operations of the Trust until June 10, 2008, when the arrangement with the Trust was terminated. All intercompany balances and transactions are eliminated on consolidation.

#### Estimates

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for items such as inventory provisions, Shoppers Optimum® loyalty card program costs, assumptions underlying the actuarial determination of employee future benefits, income and other taxes and when testing goodwill, other intangible assets and long-lived assets for impairment. Actual results could differ from these estimates.

#### Revenue Recognition

The Company recognizes revenue at the time goods are sold, net of returns.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Bank Indebtedness

Bank indebtedness is comprised of corporate bank overdraft balances and bank lines of credit used by the Associate-owned stores to meet their operating needs and outstanding cheques.

### Inventory

Inventory is comprised of merchandise inventory and is valued at the lower of cost and estimated net realizable value, with cost being determined on the first-in, first-out basis. Cost includes all direct expenditures and other appropriate costs incurred in bringing inventory to its present location and condition. The Company classifies rebates and other consideration received from a vendor as a reduction to the cost of inventory unless the rebate clearly relates to the reimbursement of a specific expense.

### Property and Equipment

Property and equipment are recorded at cost including capitalized interest. Interest is capitalized on properties held for development and properties under development. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets at the rates indicated below.

Buildings	20 years
Equipment and fixtures	3 to 10 years
Computer software and equipment	2 to 10 years
Leasehold improvements	Lesser of term of the lease and useful life

Long-lived assets are tested for impairment when events or circumstances indicate their carrying value exceeds the sum of the undiscounted cash flows expected from their use and eventual disposal. An impairment loss is measured as the amount by which the long-lived assets' carrying value exceeds the fair value. The Company reviews long-lived assets for impairment at least annually.

### Deferred Costs

#### Store Opening Costs

Certain costs associated with the opening of new and relocated stores are deferred and amortized into cost of goods sold and other operating expenses on a straight-line basis over a period of three years.

### Goodwill and Other Intangible Assets

The Company records as goodwill the excess amount of the purchase price of an acquired business over the fair value of the underlying net assets, including intangible assets, at the date of acquisition. Goodwill is not amortized but is tested for impairment at least on an annual basis. In the event of an impairment, the excess of the carrying amount over the fair value of goodwill would be charged to earnings.

Intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets at the rates indicated below. Intangible assets are tested for impairment when an indication of impairment exists. In the event of an impairment, the excess of the carrying amount over the fair value of intangible assets would be charged to earnings.

Prescription files	7 to 12 years
Developed technology	3 years
Customer relationships	5 to 25 years
Other	Indefinite

## Leases

The Company leases most of its store locations and office space. Terms vary in length and typically permit renewal for additional periods. Minimum rent, including scheduled escalations, is expensed on a straight-line basis over the term of the lease, including any rent-free periods. Landlord inducements are deferred and amortized as reductions to rent expense on a straight-line basis over the same period. The Company capitalizes rent expense during a store's fixturing period to leasehold improvements.

Leases may include additional payments for real estate taxes, maintenance and insurance. These amounts are expensed in the period to which they relate.

## Shoppers Optimum® Loyalty Program

The Shoppers Optimum® loyalty card program (the "Program") allows members to earn points on their purchases in Shoppers Drug Mart®, Pharmaprix®, Shoppers Simply Pharmacy™, Pharmaprix Simplement Santé<sup>MC</sup>, Shoppers Home Health Care® and Murale™ stores at a rate of 10 points for each dollar spent on eligible products and services, plus any applicable bonus points. Members can then redeem points, in accordance with the Program rewards schedule or other offers, for discounts on front store merchandise at the time of a future purchase transaction. When points are earned by Program members, the Company records an expense and establishes a liability for future redemptions by multiplying the number of points issued by the estimated cost per point. The Program liability is included in accounts payable and accrued liabilities on the Company's consolidated balance sheets. The actual cost of Program redemptions is charged against the liability account.

The estimated cost per point is determined based on many factors, including the historical behaviour of Program members, expected future redemption patterns and associated costs. The Company monitors, on an ongoing basis, trends in redemption rates (points redeemed as a percentage of points issued) and net cost per point redeemed and adjusts the estimated cost per point based upon expected future activity. To the extent that estimates differ from actual experience, the Program costs could be higher or lower.

## Employee Future Benefits

The Company maintains registered defined benefit pension plans under which benefits are available to certain employee groups. The Company also makes supplementary retirement benefits available to certain employees under a non-registered defined benefit pension plan.

The Company accrues its obligations for employee benefit plans under the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plans and other retirement benefit plan is 14 and 10 years, respectively.

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Stock-based Compensation

The Company has stock option compensation plans which are described in Note 14. Compensation expense is recognized for these plans for stock options granted to employees and directors after December 28, 2002 using the fair value method. Any consideration paid by employees and directors on exercise of stock options is credited to share capital.

### Income Taxes

The Company accounts for income taxes using the liability method of accounting. Under the liability method, future income tax assets and liabilities are determined based on differences between the carrying amounts of balance sheet items and their corresponding tax values. The liability method requires the computation of future income taxes using the substantively enacted corporate income tax rates for the years in which the differences are expected to reverse.

### Classification of Financial Instruments

Financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. The classification determines the accounting treatment of the instrument. The classification is determined by the Company when the financial instrument is initially recorded, based on the underlying purpose of the instrument.

The Company's financial assets and financial liabilities are classified and measured as follows:

Financial Asset/Liability	Category	Measurement
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Deposits <sup>(1)</sup>	Loans and receivables	Amortized cost
Long-term receivables <sup>(2)</sup>	Loans and receivables	Amortized cost
Bank indebtedness	Held for trading	Fair value
Commercial paper	Other financial liabilities	Amortized cost
Short-term debt	Other financial liabilities	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Other long-term liabilities	Other financial liabilities	Amortized cost

Derivatives	Classification	Measurement
Interest rate derivatives <sup>(3)</sup>	Effective cash flow hedge	Fair value
Equity forward derivatives <sup>(3)</sup>	<sup>(4)</sup>	Fair value

<sup>(1)</sup> The carrying value of deposits is included in prepaid expenses and deposits in the consolidated balance sheets.

<sup>(2)</sup> The carrying value of long-term receivables is included in other assets in the consolidated balance sheets.

<sup>(3)</sup> The carrying values of the Company's derivatives are included in other assets, accounts payable and accrued liabilities and other long-term liabilities in the consolidated balance sheets.

<sup>(4)</sup> The portion of the equity forward derivative agreements relating to the earned long-term incentive plan units is considered a derivative financial instrument. See Note 14 for a further discussion of the long-term incentive plan.

Financial instruments measured at amortized cost are initially recognized at fair value and then subsequently at amortized cost, with gains and losses recognized in earnings in the period in which the gain or loss occurs. Changes in fair value of financial instruments classified as held for trading are recorded in net earnings in the period of change. Changes in the fair value of the Company's derivative instruments designated as effective cash flow hedges are recognized in other comprehensive loss; changes in derivative instruments not designated as effective hedges are recognized in net earnings in the period of the change.

### **Transaction Costs**

The Company has adopted the policy of adding transaction costs to financial assets and liabilities classified as other than "held for trading".

### **Derivative Financial Instruments and Hedge Accounting**

The Company uses interest rate derivatives to manage its exposure to fluctuations in interest rates related to the Company's commercial paper. The income or expense arising from the use of these instruments is included in interest expense for the year.

The Company uses cash-settled equity forward agreements to limit its exposure to future price changes in the Company's share price for share unit awards under the Company's long-term incentive plan ("LTIP"). The income or expense arising from the use of these instruments is included in other operating expenses for the year. See Note 14 for further discussion of the LTIP.

The Company formally identifies, designates and documents all relationships between hedging instruments and hedged items, as well as its risk assessment objective and strategy for undertaking various hedge transactions. The Company assesses, both at the hedge's inception and on an ongoing basis including on re-designation, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When such derivative instruments cease to exist or be effective as hedges, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are recognized in net earnings in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in net earnings in the period the hedged item ceases to exist. Changes in the fair value of the Company's derivatives are non-cash transactions and are therefore not recognized in the consolidated statement of cash flows.

The Company does not have any significant embedded features in contractual arrangements that require separate presentation from the related host contract.

### **Associate Interest**

Associate interest reflects the investment the Associates have in the net assets of their corporations.

## **2. CHANGES IN ACCOUNTING POLICIES**

### **Capital Disclosures**

In 2006, the CICA issued a new accounting standard concerning Capital Disclosures ("Section 1535"), which requires the disclosure of both quantitative and qualitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The standard also requires an entity to disclose if it has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Company applied the new accounting standard at the beginning of its current fiscal year and its implementation did not have an impact on the Company's results of operations or financial position. See Note 18 for the resulting disclosures from implementation.

## 2. CHANGES IN ACCOUNTING POLICIES (continued)

### Financial Instruments

The Company adopted two new accounting standards concerning financial instruments: CICA Handbook Section 3862, "Financial Instruments – Disclosures" ("Section 3862") and CICA Handbook Section 3863, "Financial Instruments – Presentation" ("Section 3863"). These standards were issued in December 2006 and replaced Section 3861, "Financial Instruments – Disclosure and Presentation". The new disclosure standard increased the emphasis on the risk associated with financial instruments and how those risks are managed. The new presentation standard carried forward the former presentation requirements under the replaced Section 3861. The standards are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The Company applied the new accounting standards at the beginning of its current fiscal year and its implementation did not have an impact on the Company's results of operations or financial position. See Note 17 for the resulting disclosures from implementation.

### Inventories

The CICA issued a new accounting standard concerning Inventories ("Section 3031"), in June 2007, which is based on the International Accounting Standards Board's ("IASB") International Accounting Standard 2 and replaced Section 3030, "Inventories". The new standard provides guidance on the determination of the cost of inventory and the subsequent recognition of inventory as an expense, as well as requiring additional associated disclosures. The new standard also allows for the reversal of any write-downs previously recognized. The standard is effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Company applied the new accounting standard retrospectively at the beginning of its current fiscal year, with restatement of prior periods.

The impact for the year ended December 29, 2007 is an increase in cost of goods sold and other operating expenses and a decrease in operating income of \$3,742 and a decrease in net earnings of \$3,187, resulting in a decrease of \$0.01 in basic and diluted net earnings per share.

The implementation of the new standard resulted in a reduction of 2008 and 2007 opening retained earnings of \$21,337 and \$18,150, respectively. The impact on balances as at December 29, 2007, was a decrease in inventory of \$31,925, an increase in future income tax asset of \$9,863 and a decrease in income taxes payable of \$725.

Inventory is comprised of merchandise inventory and is valued at the lower of cost and estimated net realizable value, with cost being determined on the first-in, first-out basis. Cost includes all direct expenditures and other appropriate costs incurred in bringing inventory to its present location and condition. The Company classifies rebates and other consideration received from a vendor as a reduction to the cost of inventory unless the rebate clearly relates to the reimbursement of a specific expense.

The cost of inventory recognized as an expense and included in cost of goods sold and other operating expenses for the 53 weeks ended January 3, 2009 was \$5,944,249 (2007 – \$5,406,555). During the 53 and 52 week periods ended January 3, 2009 and December 29, 2007, there were no significant write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

## **Going Concern**

In June 2007, the CICA issued amendments to Section 1400, “General Standards of Financial Statement Presentation”, to include requirements to assess and disclose an entity’s ability to continue as a going concern. The new amendments are effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008. The Company applied the amendments to Section 1400 at the beginning of its current fiscal year. The implementation did not have an impact on the Company’s results of operations, financial position or disclosures.

## **Financial Instruments – Determining Whether a Contract Is Routinely Denominated as a Single Currency**

In January 2008, the Emerging Issues Committee (“EIC”) issued EIC-169, “Determining Whether a Contract Is Routinely Denominated as a Single Currency”, which provides additional guidance on the interpretation of the term “routinely denominated” in CICA Handbook Section 3855, “Financial Instruments – Recognition and Measurement”. The new guidance is effective for interim and annual financial statements issued on or after March 15, 2008. The Company applied the new guidance retrospectively at the beginning of its current fiscal year. The implementation did not have a significant impact on the Company’s results of operations, financial position or disclosures.

## **Future Accounting Standards**

### **Financial Statement Concepts**

In February 2008, the CICA issued amendments to Section 1000, “Financial Statement Concepts”, to clarify the criteria for recognition of an asset and the timing of expense recognition, specifically, deleting the guidance permitting the deferral of costs. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company will apply the amendments to Section 1000 at the beginning of its 2009 fiscal year in conjunction with Section 3064, “Goodwill and Intangible Assets”.

### **Goodwill and Intangible Assets**

In February 2008, the CICA issued a new accounting standard concerning Goodwill and Intangible Assets (“Section 3064”), which is based on the IASB’s International Accounting Standard 38, “Intangible Assets”. The new section replaced the existing guidance on goodwill and other intangible assets and research and development costs. The objective of the new standard is to eliminate the practice of deferring costs that do not meet the definition and recognition criteria of assets. The standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company will apply the new accounting standards retrospectively at the beginning of its 2009 fiscal year. The Company is currently assessing the impact of the new standard on the Company’s results of operations, financial position and disclosures.

### **Business Combinations**

In January 2009, the CICA issued new accounting standards concerning Business Combinations (“Section 1582”), Non-controlling Interests (“Section 1602”) and Consolidated Financial Statements (“Section 1601”), which are based on the IASB’s International Financial Reporting Standard 3, “Business Combinations”. The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose

## 2. CHANGES IN ACCOUNTING POLICIES (continued)

acquisition dates preceded the application of the new standards shall not be adjusted upon application of these new standards. The non-controlling interests standard should be applied retrospectively except for certain items.

The Company is assessing whether it will apply the new accounting standards at the beginning of its 2011 fiscal year or elect to early adopt the new accounting standards at the beginning of its 2010 fiscal year in order to minimize the amount of restatement when the Company adopts International Financial Reporting Standards (“IFRS”). The impact of the new standards on the Company’s results of operations, financial position and disclosures will be assessed as part of the Company’s IFRS transition project.

### Financial Assets and Financial Liabilities

The EIC issued a new abstract on January 20, 2009 concerning the measurement of financial assets and financial liabilities (“EIC-173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities”). There has been diversity in practice as to whether an entity’s own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial instruments. The Committee reached a consensus that these risks should be taken into account in the measurement of financial assets and financial liabilities. The Abstract is effective for all financial assets and financial liabilities measured at fair value in interim and annual financial statements issued for periods ending on or after the date of issuance of the Abstract with retrospective application without restatement of prior periods. The Company will be applying the new Abstract at the beginning of its 2009 fiscal year.

The Company is currently assessing the impact of the Abstract on the measurement of its financial assets and financial liabilities; however, the Company does not expect the implementation to have a significant impact on the Company’s results of operations, financial position and disclosures.

## 3. ACQUISITIONS

### HealthAccess and Information Healthcare Marketing Corp.

On July 2, 2008, the Company acquired the specialty drug assets of the HealthAccess business of Calea Ltd. and 100% of the shares of Calea Ltd.’s wholly owned subsidiary, Information Healthcare Marketing Corp., which operates a related call centre business. The acquired business is based in Mississauga, Ontario, operates as Shoppers Drug Mart Specialty Health Network Inc. and provides comprehensive patient support services for specialty pharmaceutical needs. The assets acquired are composed primarily of goodwill, intangible assets and leasehold improvements at two locations. The operations of the acquired assets and business have been included in the Company’s results of operations from the date of acquisition.

The total cost of the acquisition in cash, including costs incurred in connection with the acquisition, was \$88,690 and will be allocated between the assets acquired on the basis of their fair values. The purchase price allocation remains preliminary pending finalization of the valuations of the assets and business acquired. The preliminary cost of the acquisition was allocated to the net assets on the basis of their fair values as follows:

Net working capital	\$	3,886
Property and equipment		488
Goodwill		84,316
Purchase price	\$	88,690

### Centre d'Escomptes Racine

On September 25, 2007, the Company purchased assets of the seven stores of Centre d'Escomptes Racine, a pharmacy chain in Québec. The operations of the acquired stores have been included in the Company's results of operations from the date of acquisition.

The total cost of the acquisition in cash, including costs incurred in connection with the acquisition, was \$77,464. This amount includes \$387 of legal fees related to the acquisition recorded in the Company's 2008 fiscal year. The cost of the acquisition was allocated to the net assets on the basis of their fair values as follows:

Net working capital	\$	10,078
Property and equipment		1,337
Goodwill		53,949
Prescription files <sup>(1)</sup>		12,100
Purchase price	\$	77,464

<sup>(1)</sup> The carrying value of the Company's prescription files is included in other intangible assets in the consolidated balance sheets.

### Other Business Acquisitions

During the current fiscal year, the Company acquired the assets or shares of a number of pharmacies, each of which is individually immaterial to the Company's total acquisitions. The total cost of the acquisitions of \$154,824 (2007 – \$62,756), including costs incurred in connection with the acquisitions, is allocated primarily to goodwill and other intangible assets based on their fair values. Certain purchase price allocations are preliminary and may change. The operations of the acquired pharmacies have been included in the Company's results of operations from the date of acquisition.

### Funds Held in Escrow

The Company had amounts held in escrow of \$5,166 (2007 – \$93,688) with respect to a number of offers to acquire certain pharmacies. These amounts are included in the prepaid expenses and deposits balance on the consolidated balance sheets.

## 4. INTEREST EXPENSE

The components of the Company's interest expense are as follows:

	2008	2007
Interest on bank indebtedness	\$ 10,584	\$ 10,887
Interest on commercial paper	23,689	27,797
Interest on short-term debt	2,292	–
Interest on long-term debt	27,387	14,189
	\$ 63,952	\$ 52,873

During the 53 week period ended January 3, 2009, the Company capitalized \$590 (2007 – \$nil) of interest expense to property and equipment.

## Notes to the Consolidated Financial Statements (continued)

January 3, 2009 and December 29, 2007 (in thousands of dollars, except per share data)

### 4. INTEREST EXPENSE (continued)

Commercial paper is issued with maturities from overnight to 90 days at floating interest rates based on bankers' acceptance rates. The Company has entered into interest rate derivative agreements converting an aggregate notional principal amount of \$250,000 of floating rate commercial paper debt into fixed rate debt. The fixed rates payable by the Company under these agreements ranged from 4.03% to 4.18%. Agreements covering \$150,000 of notional principal amount matured in December 2008. The remaining agreements mature as follows: \$50,000 with a fixed rate payable of 4.11% in December 2009 and \$50,000 with a fixed rate payable of 4.18% in December 2010, with reset terms of one month. The Company recorded a net gain of \$332 as interest expense on commercial paper related to the agreements that matured in December 2008. See Note 17 for further discussion of the derivative agreements.

### 5. INCOME TAXES

The effective income tax rate is comprised of the following:

	2008	2007
Combined Canadian federal and provincial statutory tax rate	30.8%	33.0%
Adjusted for:		
Increase in future income taxes resulting from statutory tax rate changes	0.1%	0.3%
Non-deductible charges and other	0.1%	(0.2%)
Effective income tax rate	31.0%	33.1%

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

	2008	2007
<b>Current</b>		
Deferred income	\$ 59,724	\$ 56,048
Accrued liabilities	8,771	9,639
Other	14,784	4,265
	\$ 83,279	\$ 69,952
<b>Long-term</b>		
Depreciable assets	\$ (76,181)	\$ (60,803)
Other long-term liabilities	38,123	33,854
Deferred costs	(15,094)	(7,916)
Net capital loss carryforwards	6,181	6,696
Other	(17)	(2,002)
	\$ (46,988)	\$ (30,171)

## 6. PROPERTY AND EQUIPMENT

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Properties held for development	\$ 30,049	\$ –	\$ 30,049	\$ 38,155	\$ –	\$ 38,155
Properties under development	66,851	–	66,851	26,218	–	26,218
Land	45,946	–	45,946	34,778	–	34,778
Buildings	138,603	27,115	111,488	118,064	25,731	92,333
Equipment, fixtures, computer software and equipment	1,063,824	532,376	531,448	863,636	433,127	430,509
Leasehold improvements	897,976	241,623	656,353	691,460	186,940	504,520
	<b>\$ 2,243,249</b>	<b>\$ 801,114</b>	<b>\$ 1,442,135</b>	<b>\$ 1,772,311</b>	<b>\$ 645,798</b>	<b>\$ 1,126,513</b>

The Company amortized \$190,322 (2007 – \$161,584) of property and equipment into amortization expense during the current fiscal year.

## 7. DEFERRED COSTS

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Store opening costs	\$ 113,683	\$ 66,470	\$ 47,213	\$ 81,416	\$ 48,450	\$ 32,966

The Company amortized \$18,020 (2007 – \$13,508) of store opening costs into cost of goods sold and other operating expenses during the current fiscal year.

## 8. GOODWILL

The change in the carrying amount of goodwill is as follows:

	2008	2007
Opening balance	\$ 2,245,441	\$ 2,122,162
Goodwill acquired	181,798	123,279
Ending balance	<b>\$ 2,427,239</b>	<b>\$ 2,245,441</b>

Goodwill from asset acquisitions made during the current fiscal year of \$152,009 (2007 – \$89,662) is expected to be deductible for tax purposes.

There were no write-downs of goodwill due to impairment during the fiscal years ended January 3, 2009 and December 29, 2007.

## Notes to the Consolidated Financial Statements (continued)

January 3, 2009 and December 29, 2007 (in thousands of dollars, except per share data)

### 9. OTHER INTANGIBLE ASSETS

	2008			2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Prescription files	\$ 91,599	\$ 20,924	\$ 70,675	\$ 40,529	\$ 11,472	\$ 29,057
Developed technology	1,912	1,062	850	1,486	516	970
Customer relationships	29,600	3,512	26,088	29,600	1,897	27,703
Other	200	–	200	200	–	200
	<b>\$ 123,311</b>	<b>\$ 25,498</b>	<b>\$ 97,813</b>	<b>\$ 71,815</b>	<b>\$ 13,885</b>	<b>\$ 57,930</b>

The Company amortized \$9,452 (2007 – \$4,280) of prescription files, \$546 (2007 – \$421) of developed technology and \$1,615 (2007 – \$1,625) of customer relationships into amortization expense during the current fiscal year.

There were no write-downs of other intangible assets due to impairment during the 53 and 52 week periods ended January 3, 2009 and December 29, 2007.

### 10. SHORT-TERM DEBT

#### Bank Indebtedness

Bank indebtedness is composed of line of credit borrowings by both the Company and the Associate-owned stores. The Associate-owned stores borrow under agreements guaranteed by the Company. The Company has entered into agreements with banks to guarantee a total of \$425,000 (2007 – \$415,000) of lines of credit. At January 3, 2009, the Associate-owned stores have utilized \$263,830 (2007 – \$228,155) of the available lines of credit.

#### Commercial Paper

Commercial paper is issued with maturities from overnight to 90 days at floating interest rates based on bankers' acceptance rates. The Company had entered into interest rate derivative agreements converting an aggregate notional principal amount of \$250,000 of floating rate commercial paper. The fixed rates payable by the Company under these agreements ranged from 4.03% to 4.18%. Agreements covering \$150,000 of notional principal amount matured in December 2008. The remaining \$100,000 of agreements mature as follows: \$50,000 with a fixed rate payable of 4.11% in December 2009 and \$50,000 with a fixed rate payable of 4.18% in December 2010, with reset terms of one month. The Company recorded a net gain of \$332 as interest expense on commercial paper related to the agreements that matured in December 2008. See Note 17 for further discussion of the derivative agreements.

#### Short-term Debt

	Maturity	2008	2007
\$300,000, senior, unsecured 364-day bank credit facility, net	October 2009	\$ 197,845	\$ –
Short-term debt		\$ 197,845	\$ –

On October 17, 2008, the Company entered into a senior unsecured 364-day bank facility in the amount of up to \$200,000, available for a single drawdown. On October 23, 2008, the Company fully utilized this facility to refinance a portion of its \$300,000 medium-term notes that were maturing. On December 19, 2008, the Company amended this facility to increase the funds available to \$300,000. The additional \$100,000 is available for a single drawdown. Should the Company issue any medium-term notes during the term of the facility, the facility must be repaid in the lesser of the amount of the medium-term notes issued or the outstanding balance of the facility.

This facility bears interest at a floating interest rate based on the prime rate. The debt has been recognized net of the costs of issuance and is valued at amortized cost.

Subsequent to year end, on January 20, 2009, the outstanding amount on this facility was repaid and the facility was terminated. See Note 19 for a further discussion.

## 11. LONG-TERM DEBT

	Maturity	2008	2007
Medium-term notes			
Series 1 notes – 4.97%	October 2008	\$ –	\$ 298,990
Less: current portion		–	298,990
		–	–
Series 2 notes – 4.99%	June 2013	<b>447,250</b>	–
\$800,000 (2007 – \$550,000) revolving term facility	June 2011	<b>200,000</b>	–
Long-term debt		<b>\$ 647,250</b>	\$ –

On April 22, 2008, the Company completed an amendment to its existing revolving bank credit facility, which matures in June of 2011, increasing the size of the facility from \$550,000 to \$800,000. In conjunction with this amendment, the Company also increased its commercial paper program from \$300,000 to \$500,000.

On May 22, 2008, the Company filed with the securities regulators in each of the provinces of Canada a final short form base shelf prospectus (the “Prospectus”) for the issuance of up to \$1 billion of medium-term notes. Subject to the requirements of applicable law, medium-term notes can be issued under the Prospectus for up to 25 months from May 22, 2008, the date of the final receipt.

On June 2, 2008, the Company issued \$450,000 of five-year medium-term notes (the “Series 2 notes”) under the Prospectus for aggregate net proceeds of \$448,285. The Series 2 notes mature on June 3, 2013 and bear interest at a fixed rate of 4.99% per annum.

On October 24, 2008, the \$300,000 of Series 1 notes was repaid in full, along with all accrued and unpaid interest owing on the final semi-annual interest payment. The Company financed the repayment with funds from the drawdown of \$200,000 of the senior unsecured 364-day credit facility and \$100,000 from the revolving term facility.

As at January 3, 2009, an additional \$349,889 (2007 – \$61,212) of the \$800,000 revolving term facility was utilized as follows: \$8,889 (2007 – \$61,212) relating to letters of credit and trade finance guarantees and \$341,000 (2007 – \$45,000) to support commercial paper issued by the Company.

Subsequent to year end, on January 20, 2009, the Company issued \$500,000 of medium-term notes in two series. See Note 19 for a description of the issuance.

## Notes to the Consolidated Financial Statements (continued)

January 3, 2009 and December 29, 2007 (in thousands of dollars, except per share data)

### 11. LONG-TERM DEBT (continued)

#### Minimum Repayments

Future minimum required repayments of long-term debt are as follows:

<b>Term facility</b>		
2011	\$	200,000
<b>Series 2 notes</b>		
2013		450,000
	\$	650,000

### 12. OTHER LONG-TERM LIABILITIES

The components of the Company's other long-term liabilities are as follows:

	2008	2007
Deferred rent obligation	\$ 263,743	\$ 210,275
Employee future benefits	16,879	15,247
Long-term incentive plan (Note 14)	3,727	6,742
Unrealized loss on derivative instruments (Note 17)	4,168	–
Other	14,600	12,393
	\$ 303,117	\$ 244,657

#### Deferred Rent Obligation

The deferred rent obligation represents the difference between rent expense and cash rent payments and the deferral of landlord inducements.

#### Employee Future Benefits

The Company maintains registered defined benefit pension plans under which benefits are available to certain employee groups. The Company also makes supplementary retirement benefits available to certain employees under a non-registered defined benefit pension plan.

The pension plans are funded through contributions based on actuarial cost methods as permitted by pension regulatory bodies as applicable. Earnings are charged with the cost of benefits earned by employees as services are rendered. Benefits under these plans are based on the employees' years of service and final average earnings.

The most recent actuarial valuations of the registered plans for funding purposes were performed as at December 31, 2006 and the next valuations will be required as at December 31, 2009. The most recent actuarial valuation of the non-registered plan for funding purposes was as at December 31, 2008 and the next valuation will be required as at December 31, 2009.

The Company also maintains post-retirement benefit plans, other than pensions, covering benefits such as health and life insurance benefits for retirees. The cost of these plans is charged to earnings as benefits are earned by employees on the basis of service rendered.

Information about the Company's pension and other post-retirement benefit plans, measured at November 30, 2008 and 2007, respectively, is as follows:

	2008		2007	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
<b>Fair value of plan assets</b>				
Fair value of plan assets, beginning of period	\$ 80,510	\$ –	\$ 75,825	\$ –
Actual return on plan assets	(11,120)	–	3,164	–
Company contribution	4,332	620	4,735	491
Participant contributions	1,117	–	1,042	–
Benefits paid	(3,034)	(620)	(4,256)	(491)
<b>Fair value of plan assets, end of period</b>	<b>\$ 71,805</b>	<b>\$ –</b>	<b>\$ 80,510</b>	<b>\$ –</b>
<b>Accrued benefit obligation</b>				
Benefit obligation, beginning of period	\$ 100,624	\$ 4,775	\$ 101,024	\$ 4,595
Service cost	6,051	439	6,230	415
Interest cost	4,395	270	4,198	256
Participant contributions	1,117	–	1,042	–
Plan amendments	–	–	(248)	–
Actuarial gain	(21,676)	–	(7,366)	–
Benefits paid	(3,034)	(620)	(4,256)	(491)
<b>Accrued benefit obligation, end of period</b>	<b>\$ 87,477</b>	<b>\$ 4,864</b>	<b>\$ 100,624</b>	<b>\$ 4,775</b>
<b>Funded status – plan deficit</b>				
Unrecognized plan amendments	\$ (1,306)	\$ –	\$ (1,507)	\$ –
Unrecognized losses	4,963	–	11,149	–
<b>Accrued benefit liability</b>	<b>\$ (12,015)</b>	<b>\$ (4,864)</b>	<b>\$ (10,472)</b>	<b>\$ (4,775)</b>

There were no significant changes in the measurement of the Company's pension and other post-retirement benefit plans between November 30, 2008 and January 3, 2009.

The significant actuarial assumptions adopted are as follows:

	2008			2007		
	Registered Pension Plans	Non-registered Pension Plan	Other Benefit Plans	Registered Pension Plans	Non-registered Pension Plan	Other Benefit Plans
<b>Accrued benefit obligation, end of period</b>						
Discount rate	6.75%	3.25%	6.75%	5.25%	2.63%	5.25%
Compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
<b>Benefit expense, for the period</b>						
Discount rate	5.25%	2.63%	5.25%	5.00%	2.50%	5.00%
Expected return on assets	7.50%	3.75%	N/A	7.50%	3.75%	N/A
Compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

The health care cost trend rates used were 5.5% for 2008 and 2007, with 5.5% being the ultimate trend rate for later years. A 1% change in the assumed health care cost trend rate would not have a significant effect on the amounts reported for other benefit plans.

## Notes to the Consolidated Financial Statements (continued)

January 3, 2009 and December 29, 2007 (in thousands of dollars, except per share data)

### 12. OTHER LONG-TERM LIABILITIES (continued)

The components of the Company's pension and other post-retirement benefit plans expense are as follows:

	2008		2007	
	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Service costs	\$ 6,051	\$ 439	\$ 6,230	\$ 415
Interest cost	4,395	270	4,198	256
Actual return on plan assets	11,120	–	(3,164)	–
Actuarial gain	(21,676)	–	(7,366)	–
Plan amendments	–	–	(248)	–
Costs arising from events of the period	(110)	709	(350)	671
Difference between:				
Actual and expected return on plan assets	(15,784)	–	(1,225)	–
Actuarial gain or loss recognized for the year and actual actuarial gain or loss on accrued benefit obligation	21,969	–	7,930	–
Amortization of plan amendment and actual plan amendments	(201)	–	(201)	–
Net expense	\$ 5,874	\$ 709	\$ 6,154	\$ 671

Total cash payments for employee future benefits consist of the Company's contributions to the pension plans and cash payments made directly to beneficiaries of the other benefit plans and totalled \$4,952 (2007 – \$5,226).

The assets of the registered pension plans consist of cash, contributions receivable and a proportionate share of a Master Trust. The assets held by the Master Trust are invested in a limited number of pooled funds, based on market values as at November 30, 2008 and 2007, respectively, as follows:

	2008	2007
Equity	59%	58%
Fixed income	39%	41%
Cash and cash equivalents	2%	1%

There were no significant changes in the assets held by the Master Trust between November 30, 2008 and January 3, 2009.

The assets of the non-registered plan consist of cash and investments. The investments are in pooled funds with an allocation of 61% equities, 38% bonds and 1% cash and cash equivalents based on market values as at November 30, 2008 and 60% equities and 40% bonds as at November 30, 2007. There were no significant changes in the allocation of investments between November 30, 2008 and January 3, 2009.

### 13. SHARE CAPITAL

#### Authorized

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series without nominal or par value

#### Outstanding

	2008		2007	
	Number of Common Shares	Stated Value	Number of Common Shares	Stated Value
Beginning balance	216,788,462	\$ 1,506,020	214,975,945	\$ 1,491,264
Shares issued	463,369	7,144	1,813,199	13,710
Shares repurchased	(1,464)	(10)	(682)	(5)
Repayment of share purchase loans	–	288	–	325
Exercised options	–	765	–	726
Ending balance	217,250,367	\$ 1,514,207	216,788,462	\$ 1,506,020

#### Weighted Average Shares Outstanding

##### January 3, 2009

Basic	216,976,909
Diluted	217,450,258

##### December 29, 2007

Basic	216,062,811
Diluted	217,220,846

The common shares that may be issued under the Company's stock option plans, including contingently returnable shares issued as part of those plans, have a dilutive impact on the weighted average number of shares of 473,349 (2007 – 1,158,035).

Individual shareholder agreements address matters related to the transfer of certain shares issued to the Company's management and Associates, including shares issued under options granted to management. In particular, each provides, subject to certain exceptions, for a general prohibition on any transfer of a member of management's or Associate's shares for a period of five years from the date that the individual entered into the shareholder agreement.

The Company has issued loans to certain key employees under a stock purchase plan to acquire common shares of the Company. The share purchase loans receivable are non-interest bearing, mature in 2009 to 2011, are subject to certain terms of repayment pursuant to a shareholders' agreement and are secured by the shares to which the loans relate. Share purchase loans are presented as a reduction in share capital and the related shares are deducted in the determination of the weighted average shares outstanding for purposes of the basic net earnings per common share calculation.

## 14. STOCK-BASED COMPENSATION

The Company established stock option plans for certain employees and its Board of Directors as described below and has reserved 20,000,000 common shares for issuance under the plans. Effective February 2007, directors are no longer eligible to participate in the stock option plans. The Company established a deferred share unit plan for non-employee directors, which is also described below.

In 2003, the Company adopted the guidance of CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments," on a prospective basis. The guidance requires the use of the fair value method to account for stock options issued under employee and director stock option programs. The Company expensed \$1,498 in 2008 (2007 – \$3,544) associated with stock options issued under the employee and director plans.

The fair value of each option was estimated on the date of the grant using the Black-Scholes option-pricing model.

If the Company had used the Black-Scholes option-pricing model on stock options issued in 2002, the options would have been fully expensed by the end of the Company's 2007 fiscal year. The Company's net earnings for the 52 week period ended December 29, 2007 would have been reduced by \$176. Basic and diluted earnings per share would have been unchanged.

### Employee Stock Option Plan

Options issued to certain employees have an exercise price per share of no less than the fair market value on the date of the option grant. These options include awards for shares that vest based on the passage of time, performance criteria, or both. Time-based options are exercisable 20% per year on the anniversary of the grant date in each of the five subsequent years. Performance-based options are exercisable 20% per year on the anniversary of the grant date in each of the five subsequent years provided that the Company achieves specified earnings-based performance targets. Performance targets not achieved are considered to be met if the performance is achieved on a cumulative basis in subsequent years. The performance-based options become fully exercisable on the ninth anniversary of the date of grant, provided that they have not otherwise been terminated, whether or not the performance targets are achieved.

Upon the termination of an optionee's employment, all unexercisable options expire immediately and exercisable options expire within 180 days of the date of termination. The plan provides that the Company may pay, in cash, certain terminated option holders the appreciated value of the options to cancel exercisable options.

Subject to certain prior events of expiry, such as the termination of the employee's employment for cause, all exercisable options expire on the tenth anniversary of the date of grant.

A summary of the status of the employee stock option plan and changes during the current fiscal year is presented below:

	2008		2007	
	Options on Common Shares	Weighted Average Exercise Price per Share	Options on Common Shares	Weighted Average Exercise Price per Share
Outstanding, beginning of period	1,129,060	\$ 26.88	2,916,450	\$ 15.30
Exercised	(424,369)	14.80	(1,773,199)	7.82
Forfeited/Cancelled including repurchased	(10,350)	29.30	(14,191)	29.64
Outstanding, end of period	694,341	\$ 34.22	1,129,060	\$ 26.88
Options exercisable, end of period	450,417	\$ 28.77	753,125	\$ 19.25

Range of Exercise Price	2008 Outstanding Options			2008 Exercisable Options	
	Number of Options Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price per Share	Number of Exercisable Options	Weighted Average Exercise Price per Share
\$ 5.00 – \$ 5.60	98,569	2.6	\$ 5.47	98,569	\$ 5.47
\$17.13 – \$24.84	77,651	3.6	23.78	77,651	23.78
\$25.86 – \$26.57	44,334	4.7	26.10	41,368	26.10
\$29.30 – \$36.41	123,787	5.4	32.33	92,829	32.39
\$46.32	350,000	7.7	46.32	140,000	46.32
	694,341	5.9	\$ 34.22	450,417	\$ 28.77

### Director Stock Option Plan

Prior to February 2007, under the Company's director stock option plan, participating directors were issued time-based options to purchase 60,000 common shares. The options have an exercise price per share at fair market value on the date of the option grant, which is normally the date the optionee becomes a director. One-third of the options become exercisable in each of the following three years on the anniversary of the date of grant. Unexercisable options expire upon the optionee ceasing to be a director. Exercisable options expire on the earlier of 180 days of the optionee ceasing to be a director or the expiry date of the options, which is on the tenth anniversary of the date of grant.

A summary of the status of the director stock option plan and changes during the current fiscal year is presented below:

	2008		2007	
	Options on Common Shares	Weighted Average Exercise Price per Share	Options on Common Shares	Weighted Average Exercise Price per Share
Outstanding, beginning of period	420,000	\$ 37.99	460,000	\$ 37.66
Exercised	(39,000)	29.97	(40,000)	34.14
Outstanding, end of period	381,000	\$ 38.82	420,000	\$ 37.99
Options exercisable, end of period	321,000	\$ 37.84	260,000	\$ 34.63

Range of Exercise Price	2008 Outstanding Options			2008 Exercisable Options	
	Number of Options Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price per Share	Number of Exercisable Options	Weighted Average Exercise Price per Share
\$23.35 – \$26.95	95,000	4.4	\$ 25.62	95,000	\$ 25.62
\$41.80	106,000	6.6	41.80	106,000	41.80
\$44.02	180,000	7.1	44.02	120,000	44.02
	381,000	6.3	\$ 38.82	321,000	\$ 37.84

## 14. STOCK-BASED COMPENSATION (continued)

### Deferred Share Unit Plan for Non-employee Directors

The Company maintains a deferred share unit (“DSU”) plan to provide non-employee directors with the option to elect to receive DSUs in lieu of cash payment for all or a portion of their director fees. When such an election is made, the Company credits to the account of each non-employee director a number of DSUs (each equivalent in value to a common share) equal to the amount of fees divided by the fair market value of the common shares. The directors’ accounts shall be credited with dividend equivalents in the form of additional DSUs if and when the Company pays dividends on the common shares. Upon the director ceasing to be a member of the Board of Directors, the director shall receive a cash amount equal to the number of DSUs in his or her account multiplied by the fair market value of the common shares on the date the director ceases to be a member of the Board of Directors or on a later date selected by the director, which shall in any event be a date prior to the end of the following calendar year. During the 53 week period ended January 3, 2009, the Company recorded \$657 (2007 – \$788) in director fee compensation.

Non-employee directors who are not holders of unvested options to purchase common shares of the Company are also eligible to receive an annual award of DSUs in the amount of \$60.

The non-executive Chair of the Board of Directors receives an annual fee of \$120, one-half of which the Chair may elect, in whole or in part, to be received in DSUs and the other half of which is payable in DSUs.

During the 53 week period ended January 3, 2009, the Company issued an aggregate of 17,979 DSUs (2007 – 15,635) at a weighted average grant date fair value of \$50.71 (2007 – \$51.86). As at January 3, 2009, there were 45,270 DSUs outstanding (2007 – 27,291).

### Long-term Incentive Plan

The Company maintains a long-term incentive plan (“LTIP”) for certain employees, which was initiated in 2006. Under the LTIP, the employees are eligible to receive an award of share units equivalent in value to common shares of the Company.

During the 53 week period ended January 3, 2009, the Company awarded 140,132 share units (2007 – 100,172) at a grant date fair value of \$51.10 (2007 – \$52.49), cumulatively totalling 387,707 share units (2007 – 247,575), which vest one-third each year. During the 53 week period ended January 3, 2009, the Company paid out the fully vested award granted in 2006. As at January 3, 2009, there were 219,403 units outstanding (2007 – 194,837).

During the 53 week period ended January 3, 2009, the Company recognized compensation expense of \$5,636 (2007 – \$3,669) associated with the share units.

The liability associated with the share units earned by the employees under the LTIP is recorded in other long-term liabilities and is carried at the market value of the Company’s shares at the end of the fiscal year.

The Company has entered into cash-settled equity forward agreements to limit its exposure to future price changes in the Company’s share price for share unit awards. These agreements mature in December 2009 and December 2010. A percentage of the equity forward derivatives, related to unearned units under the LTIP, have been designated as a hedge.

## 15. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	2008	2007
Accounts receivable	\$ (75,017)	\$ (64,527)
Inventory	(185,020)	(201,658)
Prepaid expenses	(17,648)	(8,756)
Accounts payable and accrued liabilities	25,239	147,267
Income taxes recoverable/income taxes payable	(72,802)	(6,395)
	<b>\$ (325,248)</b>	<b>\$ (134,069)</b>

## 16. CONTINGENCIES, COMMITMENTS AND GUARANTEES

### Obligations under Operating Leases

The minimum lease payments (exclusive of taxes, insurance and other occupancy charges) on a calendar year basis under long-term leases for store locations and office space are as follows:

	2009	2010	2011	2012	2013	Thereafter
Minimum lease payments	\$ 316,931	\$ 327,844	\$ 320,859	\$ 304,543	\$ 288,652	\$ 2,157,532
Less: sub-lease revenue	2,982	2,771	2,462	2,068	1,612	3,716
Total lease obligations	\$ 313,949	\$ 325,073	\$ 318,397	\$ 302,475	\$ 287,040	\$ 2,153,816

### Distribution Services

The Company has entered into an agreement with a third party to provide distribution services to the Company's locations to December 31, 2009. Under the terms of this agreement, the third party will charge the Company specified costs incurred to provide the distribution services, plus an annual management fee.

### Information Services

During the 53 week period ended January 3, 2009, the Company extended its agreement to outsource certain information services activities to a third party to 2011. The Company has committed to average annual payments of approximately \$7,000 over the term of the agreement.

### Financing Trust

Until June 10, 2008, the Company had an arrangement for its Associates to obtain additional financing from the Trust. This arrangement was created to provide loans to facilitate the Associates' purchase of inventory and fund their working capital requirements. The Trust's activities were financed through the issuance of short-term asset-backed notes to third-party investors. The Company provided a standby letter of credit for the benefit of the Trust that was equal to approximately 10% of the aggregate principal amount of the loans as a form of credit enhancement.

The Company had determined that the Trust was a VIE and the Company was the primary beneficiary. As such, during its existence, the Trust was subject to consolidation by the Company. The impact of consolidating the Trust was the reclassification of Associate loans payable to the Trust to commercial paper issued by the Trust to third parties.

## 16. CONTINGENCIES, COMMITMENTS AND GUARANTEES (continued)

On April 23, 2008, the Company issued \$200,000 of commercial paper to purchase loans provided to Associates by the Trust. The purchase of these loans reduced the outstanding Trust loans to Associates from \$499,000 to \$299,000. In conjunction with this reduction, the standby letter of credit provided by the Company to the Trust as a form of credit enhancement was reduced from \$50,000 to \$30,000.

A portion of the net proceeds from the issuance of the Series 2 notes was used to purchase the remaining outstanding Trust loans to Associates. In conjunction with the purchase of all remaining Trust loans to Associates, the \$30,000 standby letter of credit was returned to the Company by the Trust and cancelled.

The arrangement with the Trust was terminated on June 10, 2008.

As at December 29, 2007, \$499,350 of the Company's consolidated commercial paper balance was commercial paper issued by the Trust.

### Litigation

The Company has indemnified Imperial Tobacco Canada Limited for all legal claims against the Company for the period prior to February 4, 2000. In addition, the Company is involved in certain legal claims arising in the normal course of business.

In the opinion of the Company's management, the eventual settlement of such claims will not have a significant effect on the Company's financial position or results of operations. Management has recorded a provision for these claims based on its best estimate of the final settlements.

### Other

In the normal course of business, the Company enters into significant commitments for the purchase of goods and services, such as the purchase of inventory or capital assets, most of which are short-term in nature and are settled under normal trade terms.

The Company is involved in and potentially subject to various claims by third parties arising out of its business including, but not limited to, product liability, labour and employment, regulatory and environmental claims. In addition, the Company is subject to regular audits from federal and provincial tax authorities relating to income, capital and commodity taxes and as a result of these audits, may receive reassessments. While income, capital and commodity tax filings are subject to audits and reassessments, management believes that adequate provisions have been made for all income and other tax obligations. However, changes in the interpretations or judgements may result in an increase or decrease in the Company's income, capital, or commodity tax provisions in the future. The amount of any such increase or decrease cannot be reasonably estimated.

## 17. FINANCIAL INSTRUMENTS

### Interest Rate Derivatives

In December 2005, the Company entered into interest rate derivative agreements converting an aggregate notional principal amount of \$250,000 of floating rate commercial paper debt issued by the Trust into fixed rate debt. During the current fiscal year, the commercial paper issued by the Trust has been replaced with commercial paper issued directly by the Company. The fixed rates payable by the Company under the derivative agreements ranged from 4.03% to 4.18%. Agreements covering \$150,000 of notional principal amount matured in December 2008. The remaining agreements mature as follows: \$50,000 with a fixed rate payable of 4.11% in December 2009 and \$50,000 with a fixed rate payable of 4.18% in December 2010, with reset terms of one month. The Company recorded a net gain of \$332 as interest expense on commercial paper related to the agreements that matured in December 2008.

Based on market values of the interest rate derivative agreements at January 3, 2009, the Company recognized a liability of \$4,647, of which \$1,566 is presented in accounts payable and accrued liabilities and \$3,081 is presented in other long-term liabilities. Based on market values of the interest rate derivative agreements at December 29, 2007, the Company recognized an asset of \$428 in other assets. During the 53 and 52 week periods ended January 3, 2009 and December 29, 2007, the Company assessed that the interest rate derivatives were an effective hedge for the floating interest rates on the associated commercial paper debt. Market values were determined based on information received from the Company's counterparties to these agreements.

### Equity Forward Derivatives

The Company uses cash-settled equity forward agreements to limit its exposure to future price changes in the Company's share price for share unit awards under the Company's LTIP. The income or expense arising from the use of these instruments is included in cost of goods sold and other operating expenses for the year.

Based on market values of the equity forward agreements at January 3, 2009, the Company recognized a liability of \$2,093, of which \$1,006 is presented in accounts payable and accrued liabilities and \$1,087 is presented in other long-term liabilities. Based on market values of equity forward agreements at December 29, 2007, the Company recognized an asset of \$332 in other assets. During the 53 and 52 week periods ended January 3, 2009 and December 29, 2007, the Company assessed that the percentage of the equity forward derivatives related to unearned units under the LTIP was an effective hedge for the common share price of the unearned units. Market values were determined based on information received from the Company's counterparties to these agreements.

### Accumulated Other Comprehensive (Loss) Income

The components of accumulated other comprehensive (loss) income as at January 3, 2009 and December 29, 2007 are comprised as follows:

	2008	2007
<b>Accumulated other comprehensive (loss) income:</b>		
Unrealized (loss) gain on interest rate derivatives (net of tax of \$1,560 and \$180, respectively)	\$ (3,087)	\$ 247
Unrealized (loss) gain on equity forward derivatives (net of tax of \$141 and \$nil, respectively)	(355)	–
<b>Accumulated other comprehensive (loss) income</b>	<b>\$ (3,442)</b>	<b>\$ 247</b>

During the 53 week period ended January 3, 2009, amounts previously recorded in accumulated other comprehensive income on the interest rate and equity forward derivatives of \$186 and \$18 (2007 – \$nil and \$160), respectively, were recognized in earnings.

### Fair Value of Financial Instruments

The fair value of a financial instrument is the estimated amount that the Company would receive or pay to settle the financial assets and financial liabilities as at the reporting date.

The fair values of cash, accounts receivable, bank indebtedness, commercial paper, short-term debt, accounts payable and dividends payable approximate their carrying values given their short-term maturities. The fair values of long-term receivables, long-term liabilities and long-term debt approximate their carrying values given the current market rates associated with these instruments.

The fair value of the interest rate and equity forward derivatives, as noted above, is determined based on current market rates and on information received from the Company's counterparties to these agreements.

## 17. FINANCIAL INSTRUMENTS (continued)

### Financial Risk Management Objectives and Policies

In the normal course of business, the Company is exposed to financial risks that have the potential to negatively impact its financial performance. The Company may use derivative financial instruments to manage certain of these risks. The Company does not use derivative financial instruments for trading or speculative purposes. These risks are discussed in more detail below:

#### Interest Rate Risk

Interest rate risk is the risk that fair value or future cash flows associated with the Company's financial assets or liabilities will fluctuate due to changes in market interest rates.

The Company, including its Associate-owned store network, is exposed to fluctuations in interest rates by virtue of its borrowings under its bank credit facilities, commercial paper program and financing programs available to its Associates. Increases or decreases in interest rates will positively or negatively impact the financial performance of the Company.

The Company uses interest rate derivatives to manage this exposure and monitors market conditions and the impact of interest rate fluctuations on its fixed and floating rate debt instruments on an ongoing basis. The Company had entered into interest rate derivative agreements converting an aggregate notional principal amount of \$250,000 of floating rate commercial paper debt into fixed rate debt. The fixed rates payable by the Company under the derivative agreements ranged from 4.03% to 4.18%. Agreements covering \$150,000 of notional principal amount matured in December 2008. The remaining \$100,000 of agreements mature as follows: \$50,000 with a fixed rate payable of 4.11% in December 2009 and \$50,000 with a fixed rate payable of 4.18% in December 2010, with reset terms of one month.

Furthermore, the Company may be exposed to losses should any counterparty to its derivative agreements fail to fulfill its obligations. The Company has sought to minimize counterparty risk by transacting with counterparties that are large financial institutions. As at January 3, 2009, there is no net exposure (2007 – \$428), as the interest rate derivative agreements are in a liability position.

As at January 3, 2009 the Company had \$904,830 of unhedged floating rate debt. During the 53 week period ended January 3, 2009, the Company's average outstanding unhedged floating rate debt was \$484,973. Had interest rates been higher or lower by 50 basis points during the 53 week period ended January 3, 2009, net earnings would have decreased or increased, respectively, by approximately \$1,701 as a result of the Company's exposure to interest rate fluctuations on its unhedged floating rate debt.

#### Credit Risk

Credit risk is the risk that the Company's counterparties will fail to meet their financial obligations to the Company, causing a financial loss.

Accounts receivable arise primarily in respect of prescription sales billed to governments and third-party drug plans and, as a result, collection risk is low. There is no concentration of balances with debtors in the remaining accounts receivable. The Company does not consider its exposure to credit risk to be material.

## Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its obligations relating to its financial liabilities.

The Company prepares cash flow budgets and forecasts to ensure that it has sufficient funds through operations, access to bank facilities and access to debt and capital markets to meet its financial obligations, capital investment program requirements and fund new investment opportunities or other unanticipated requirements as they arise. The Company manages its liquidity risk as it relates to financial liabilities by monitoring its cash flow from operating activities to meet its short-term financial liability obligations and planning for the repayment of its long-term financial liability obligations through cash flow from operating activities and/or the issuance of new debt.

The contractual maturities of the Company's financial liabilities as at January 3, 2009 are as follows:

(\$000s)	Payments Due in the Next 90 Days	Payments Due Between 90 days and less than a Year	Payments Due Between 1 year and less than 2 Years	Payments Due after 2 Years	Total
Bank indebtedness	\$ 240,844	\$ –	\$ –	\$ –	\$ 240,844
Commercial paper	341,000	–	–	–	341,000
Short-term debt	–	200,000	–	–	200,000
Accounts payable	964,059	18,876	–	–	982,935
Medium-term notes	–	–	–	450,000	450,000
Revolving term facility	–	–	–	200,000	200,000
Other long-term liabilities	48,806	–	12,573	11,157	72,536
Total	\$ 1,594,709	\$ 218,876	\$ 12,573	\$ 661,157	\$ 2,487,315

There is no difference between the carrying value of bank indebtedness and the amount the Company is required to pay. The accounts payable and other long-term liabilities amounts exclude certain liabilities that are not considered financial liabilities.

## 18. CAPITAL MANAGEMENT

The Company's primary objectives when managing capital are to profitably grow its business while maintaining adequate financing flexibility to fund attractive new investment opportunities and other unanticipated requirements or opportunities that may arise. Profitable growth is defined as earnings growth commensurate with the additional capital being invested in the business in order that the Company earns an attractive rate of return on that capital. The primary investments undertaken by the Company to drive profitable growth include additions to the selling square footage of its store network via the construction of new, relocated and expanded stores, including related leasehold improvements and fixtures, and the purchase of sites for future store construction, as well as the acquisition of independent drug stores or their prescription files. In addition, the Company makes capital investments in information technology and its distribution capabilities to support an expanding store network. The Company also provides working capital to its Associates via loans and/or loan guarantees. The Company largely relies on its cash flow from operations to fund its capital investment program and dividend distributions to its shareholders. This cash flow is supplemented, when necessary, through the borrowing of additional debt. No changes were made to these objectives during the fiscal year.

## Notes to the Consolidated Financial Statements (continued)

January 3, 2009 and December 29, 2007 (in thousands of dollars, except per share data)

### 18. CAPITAL MANAGEMENT (continued)

The Company considers its total capitalization to be bank indebtedness, commercial paper, short-term debt, long-term debt (including the current portion thereof) and shareholders' equity, net of cash. The Company also gives consideration to its obligations under operating leases when assessing its total capitalization. The Company manages its capital structure with a view to maintaining investment grade credit ratings from two credit rating agencies. In order to maintain its desired capital structure, the Company may adjust the level of dividends paid to shareholders, issue additional equity, repurchase shares for cancellation or issue or repay indebtedness. The Company has certain debt covenants and is in compliance with those covenants.

The Company monitors its capital structure principally through measuring its net debt to shareholders' equity and net debt to total capitalization ratios and ensures its ability to service its debt and meet other fixed obligations by tracking its interest and other fixed charges coverage ratios.

The following table provides a summary of certain information with respect to the Company's capital structure and financial position at the end of the periods indicated.

	January 3, 2009	December 29, 2007
Cash	\$ (36,567)	\$ (27,588)
Bank indebtedness	240,844	225,152
Commercial paper	339,957	543,847
Short-term debt	197,845	–
Current portion of long-term debt	–	298,990
Long-term debt	647,250	–
Net debt	1,389,329	1,040,401
Shareholders' equity	3,459,413	3,075,710
Total capitalization	\$ 4,848,742	\$ 4,116,111
Net debt:Shareholders' equity	0.40:1	0.34:1
Net debt:Total capitalization	0.29:1	0.25:1
EBITDA:Cash interest expense <sup>(1)(2)</sup>	17.45:1	18.37:1

<sup>(1)</sup> For purposes of calculating the ratios, EBITDA (earnings before interest, taxes, depreciation and amortization) is comprised of EBITDA for the 53 week and 52 week periods then ended. EBITDA is a non-GAAP financial measure. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

<sup>(2)</sup> Cash interest expense is also a non-GAAP measure and is comprised of interest expense for the 53 week and 52 week periods then ended and excludes the amortization of deferred financing costs.

As measured by the ratios set out above, the Company maintained its desired capital structure and financial position during the fiscal year.

The following table provides a summary of the Company's credit ratings at January 3, 2009:

	Standard & Poor's	Dominion Bond Rating Service
Corporate credit rating	BBB+	–
Senior unsecured debt	BBB+	A (low)
Commercial paper	–	R-1 (low)

There were no changes to the Company's credit ratings during the 53 weeks ended January 3, 2009.

## 19. SUBSEQUENT EVENTS

On January 20, 2009, the Company issued \$250,000 of three-year medium-term notes maturing January 20, 2012, which bear interest at a fixed rate of 4.80% (the “Series 3 notes”) and \$250,000 of five-year medium-term notes maturing January 20, 2014, which bear interest at a fixed rate of 5.19% (the “Series 4 notes”). The Series 3 notes and the Series 4 notes were issued pursuant to the Prospectus, as supplemented by pricing supplements dated January 14, 2009.

The net proceeds from the issuance of the Series 3 notes and the Series 4 notes were used to refinance existing indebtedness, including repayment of all amounts outstanding under the Company’s senior unsecured 364-day bank credit facility. The Company’s senior unsecured 364-day bank credit facility was terminated on January 20, 2009.

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### Earnings Coverage Exhibit to the Consolidated Financial Statements (unaudited)

53 weeks ended January 3, 2009

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Earnings coverage on long-term debt obligations	<b>31.54 times</b>
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The earnings coverage ratio on long-term debt (including any current portion) is equal to earnings (before interest and income taxes) divided by interest expense on long-term debt (including any current portion). Interest expense excludes any amounts in respect of amortization that were included in interest expense as shown in the consolidated statement of earnings of the Company for the fiscal year.