

SHOPPERS DRUG MART CORPORATION

Consolidated Statements of Earnings

(unaudited)

(in thousands of dollars except per share amounts)

	12 Weeks Ended		52 Weeks Ended	
	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010
Sales	\$ 2,559,854	\$ 2,488,544	\$ 10,376,067	\$ 9,985,600
Operating expenses				
Cost of goods sold and other operating expenses (Note 2)	2,235,333	2,174,809	9,192,181	8,841,170
Amortization	68,184	58,343	286,935	248,794
Operating income	256,337	255,392	896,951	895,636
Interest expense (Note 5)	12,598	11,768	56,036	58,215
Earnings before income taxes	243,739	243,624	840,915	837,421
Income taxes				
Current	61,139	67,092	238,779	249,776
Future	11,374	5,472	11,393	2,737
	72,513	72,564	250,172	252,513
Net earnings	\$ 171,226	\$ 171,060	\$ 590,743	\$ 584,908
Net earnings per common share:				
Basic	\$ 0.79	\$ 0.79	\$ 2.72	\$ 2.69
Diluted	\$ 0.79	\$ 0.79	\$ 2.72	\$ 2.69
Weighted average common shares outstanding				
- Basic (millions)	217.4	217.4	217.4	217.4
- Diluted (millions)	217.6	217.5	217.5	217.5
Actual common shares outstanding (millions)	217.5	217.4	217.5	217.4

SHOPPERS DRUG MART CORPORATION

Consolidated Statements of Retained Earnings

(unaudited)

(in thousands of dollars)

	52 Weeks Ended	
	January 1, 2011	January 2, 2010
Retained earnings, beginning of period	\$ 2,297,091	\$ 1,899,139
Net earnings	590,743	584,908
Dividends	(195,698)	(186,956)
Retained earnings, end of period	\$ 2,692,136	\$ 2,297,091

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Loss

(unaudited)

(in thousands of dollars)

	12 Weeks Ended		52 Weeks Ended	
	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010
Net earnings	\$ 171,226	\$ 171,060	\$ 590,743	\$ 584,908
Other comprehensive income, net of tax				
Change in unrealized loss on interest rate derivatives (net of tax of \$87 and \$525 (2009 - \$204 and \$1,035))	198	437	1,120	1,967
Change in unrealized loss on equity forward derivatives (net of tax of \$208 and \$205 (2009 - \$44 and \$22))	524	119	(521)	56
Amount of previously unrealized loss recognized in earnings during the period (net of tax of \$1 and \$13 (2009 - \$30 and \$117))	3	45	33	294
Other comprehensive income	725	601	632	2,317
Comprehensive income	\$ 171,951	\$ 171,661	\$ 591,375	\$ 587,225
Accumulated other comprehensive loss, beginning of period			\$ (1,125)	\$ (3,442)
Other comprehensive income			632	2,317
Accumulated other comprehensive loss, end of period			\$ (493)	\$ (1,125)

SHOPPERS DRUG MART CORPORATION

Consolidated Balance Sheets

(unaudited)
(in thousands of dollars)

	January 1, 2011	January 2, 2010
Assets		
Current		
Cash	\$ 64,354	\$ 44,391
Accounts receivable	432,089	471,029
Inventory (Note 2)	1,957,525	1,852,441
Income taxes recoverable	20,384	-
Future income taxes	80,476	86,161
Prepaid expenses and deposits	68,468	75,573
	2,623,296	2,529,595
Property and equipment (Note 4)	1,709,656	1,566,024
Goodwill (Note 3)	2,493,146	2,481,353
Intangible assets (Note 3)	272,217	258,766
Other assets	23,895	16,716
Total assets	\$ 7,122,210	\$ 6,852,454
Liabilities		
Current		
Bank indebtedness (Note 6)	\$ 209,013	\$ 270,332
Commercial paper	127,828	260,386
Accounts payable and accrued liabilities	981,491	964,736
Income taxes payable	-	17,046
Dividends payable	48,927	46,748
	1,367,259	1,559,248
Long-term debt (Note 9)	943,412	946,098
Other long-term liabilities (Note 4)	399,651	347,951
Future income taxes	48,992	42,858
	2,759,314	2,896,155
Associate interest	138,993	130,189
Shareholders' equity		
Share capital	1,520,558	1,519,870
Contributed surplus	11,702	10,274
Accumulated other comprehensive loss	(493)	(1,125)
Retained earnings	2,692,136	2,297,091
	2,691,643	2,295,966
	4,223,903	3,826,110
Total liabilities and shareholders' equity	\$ 7,122,210	\$ 6,852,454

SHOPPERS DRUG MART CORPORATION

Consolidated Statements of Cash Flows

(unaudited)

(in thousands of dollars)

	12 Weeks Ended		52 Weeks Ended	
	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010
Operating activities				
Net earnings	\$ 171,226	\$ 171,060	\$ 590,743	\$ 584,908
Items not affecting cash				
Amortization	67,381	61,951	283,401	250,202
Future income taxes	11,374	5,472	11,393	2,737
Loss (gain) on disposal of property and equipment	1,410	(7,365)	6,358	(3,456)
Stock-based compensation	325	112	1,592	694
	251,716	231,230	893,487	835,085
Net change in non-cash working capital balances	(6,806)	(59,495)	(81,527)	(177,724)
(Decrease) increase in other long-term liabilities	(1,421)	143	19,914	35,757
Cash flows from operating activities	243,489	171,878	831,874	693,118
Investing activities				
Purchase of property and equipment	(103,021)	(154,598)	(414,775)	(461,438)
Proceeds from disposition of property and equipment (Note 4)	9,539	5,107	60,538	30,106
Business acquisitions (Note 3)	(259)	(5,265)	(12,990)	(97,100)
Deposits	25	(1,187)	1,534	3,527
Purchase and development of intangible assets	(22,186)	(14,832)	(56,625)	(33,989)
Other assets	(2,419)	322	(7,466)	(4,310)
Cash flows used in investing activities	(118,321)	(170,453)	(429,784)	(563,204)
Financing activities				
Bank indebtedness, net (Note 6)	(69,881)	7,430	(61,319)	29,488
Commercial paper, net	(1,000)	7,000	(133,000)	(80,000)
Repayment of short-term debt (Note 9)	-	-	-	(200,000)
Issuance of Series 3 notes (Note 9)	-	-	-	250,000
Issuance of Series 4 notes (Note 9)	-	-	-	250,000
Revolving term debt, net	-	1,298	(1,298)	(198,702)
Financing costs incurred	(2,792)	-	(2,792)	(2,088)
Associate interest	11,913	14,995	9,277	11,511
Proceeds from shares issued for stock options exercised	-	497	491	4,481
Repayment of share purchase loans	-	-	33	137
Dividends paid	(48,927)	(46,742)	(193,519)	(186,917)
Cash flows used in financing activities	(110,687)	(15,522)	(382,127)	(122,090)
Increase (decrease) in cash	14,481	(14,097)	19,963	7,824
Cash, beginning of period	49,873	58,488	44,391	36,567
Cash, end of period	\$ 64,354	\$ 44,391	\$ 64,354	\$ 44,391
Supplemental cash flow information				
Interest paid	\$ 14,309	\$ 11,457	\$ 58,320	\$ 44,818
Income taxes paid	\$ 66,791	\$ 28,580	\$ 276,108	\$ 223,296

SHOPPERS DRUG MART CORPORATION

Notes to the Consolidated Financial Statements

(unaudited)

(in thousands of dollars except per share amounts)

1. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and follow the same accounting policies and methods of application with those used in the preparation of the audited annual consolidated financial statements for the 52 week period ended January 2, 2010. These financial statements do not contain all disclosures required by Canadian GAAP for annual financial statements and, accordingly, should be read in conjunction with the most recently prepared annual consolidated financial statements and the accompanying notes included in the Company’s 2009 Annual Report.

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 (“VIE”) and the Company is the primary beneficiary. 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 consolidated financial statements of the Company include the accounts of Shoppers Drug Mart Corporation, its subsidiaries and the Associate-owned stores that comprise the majority of the Company’s store network. All intercompany balances and transactions are eliminated on consolidation.

2. COST OF GOODS SOLD AND OTHER OPERATING EXPENSES

Inventory

During the 12 and 52 weeks ended January 1, 2011, the Company recognized cost of inventory of \$1,538,314 and \$6,372,359 (2009 - \$1,521,818 and \$6,238,239), respectively, as an expense. This expense is included in cost of goods sold and other operating expenses in the consolidated statements of earnings for the periods.

During the 12 and 52 weeks ended January 1, 2011 and January 2, 2010, 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 periods were reversed.

Other Operating Expenses

In the 12 and 52 weeks ended January 1, 2011, the Company recognized an expense of \$nil and \$10,282 in cost of goods sold and other operating expenses related to the settlement of a long-standing legal dispute related to a commercial arrangement with one of the Company’s ancillary businesses.

SHOPPERS DRUG MART CORPORATION

Notes to the Consolidated Financial Statements

(unaudited)

(in thousands of dollars except per share amounts)

3. ACQUISITIONS

In the normal course of business, the Company acquires the assets or shares of pharmacies. The total cost of acquisitions during the 12 and 52 weeks ended January 1, 2011 of \$259 and \$12,990 (2009 - \$5,265 and \$97,100), respectively, including costs incurred in connection with the acquisitions, is allocated primarily to goodwill and intangible assets based on their fair values. Purchase price allocations are preliminary when initially recognized and may change pending finalization of the valuations of the assets acquired. The operations of the acquired pharmacies have been included in the Company's results of operations from the date of acquisition.

4. SALE-LEASEBACK TRANSACTIONS

During the 12 and 52 weeks ended January 1, 2011, the Company sold certain real estate properties for net proceeds of \$9,453 and \$57,307 (2009 - \$nil and \$20,783), respectively, and entered into leaseback agreements for the area used by the Associate-owned stores. The leases have been assessed as capital or operating in nature and have been accounted for accordingly. During the 12 and 52 weeks ended January 1, 2011, the Company realized gains on disposal of \$350 and \$14,182 (2009 - \$nil and \$8,012), respectively. The gains have been deferred and are being amortized over the lease terms of 10 to 20 years (2009 - 15 to 20 years). The deferred gains are presented in accounts payable and accrued liabilities and other long-term liabilities.

5. INTEREST EXPENSE

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

	12 Weeks Ended		52 Weeks Ended	
	January 1, 2011	January 2, 2010	January 1, 2011	January 2, 2010
Interest on bank indebtedness	\$ 1,500	\$ 1,150	\$ 5,642	\$ 5,378
Interest on commercial paper	1,038	1,161	4,269	6,231
Interest on short-term debt	-	-	-	504
Interest on long-term debt	11,848	10,028	51,121	48,550
	14,386	12,339	61,032	60,663
Less: interest capitalized	1,788	571	4,996	2,448
	\$ 12,598	\$ 11,768	\$ 56,036	\$ 58,215

6. BANK INDEBTEDNESS

The Associate-owned stores borrow under their bank line of credit agreements, which are guaranteed by the Company. The Company has entered into agreements with banks to guarantee a total of \$520,000 (2009 - \$520,000) of lines of credit. As at January 1, 2011, the Associate-owned stores have utilized \$176,410 (2009 - \$254,332) of the available lines of credit.

SHOPPERS DRUG MART CORPORATION

Notes to the Consolidated Financial Statements

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(in thousands of dollars except per share amounts)

7. EMPLOYEE FUTURE BENEFITS

The net benefit expense included in the results for the 12 and 52 weeks ended January 1, 2011 for benefits provided under pension plans was \$1,250 and \$5,418 (2009 – \$1,082 and \$4,688), respectively, and for benefits provided under other benefit plans was \$134 and \$582 (2009 – \$1,012 and \$1,089), respectively.

8. STOCK-BASED COMPENSATION

Long-term Incentive Compensation Awards

The Company maintains a Long-Term Incentive Plan (“LTIP”) pursuant to which certain employees are eligible to receive an award of share units equivalent in value to common shares of the Company (“Share Units”). Awards of Share Units under the LTIP are made in February of the fiscal year immediately following the year in respect of which the award is earned. There were no awards made under the LTIP in respect of the 2009 fiscal year. For a description of the awards, see Note 14 to the consolidated financial statements in the Company’s 2009 Annual Report.

In February 2010, the Company made grants of restricted share units (“RSUs”), in respect of the 2009 fiscal year, under the Company’s Restricted Share Unit Plan (the “RSU Plan”) and for certain senior management, grants of RSUs, combined with grants of stock options under the Company’s Share Incentive Plan (the “Share Plan”).

On February 23, 2010, the Company awarded 350,384 RSUs at a grant-date fair value of \$44.09, which vest 100% after three years. Full vesting of RSUs will be phased in for employees who received an award under the LTIP in respect of a fiscal year prior to the 2009 fiscal year. During the 12 and 52 weeks ended January 1, 2011, the Company recognized compensation expense of \$2,021 and \$8,804, respectively, associated with RSUs. As at January 1, 2011, there were 326,117 RSUs outstanding.

On February 23, 2010, the Company awarded 282,120 stock options under the Share Plan at a grant-date fair value of \$6.94, which vest one-third each year. The exercise price of the stock options granted was \$44.09 and upon vesting, the stock options may be exercised over a period not exceeding seven years. During the 12 and 52 weeks ended January 1, 2011, the Company recognized compensation expense of \$276 and \$1,197, respectively, measured at fair value on the date of the grant using the Black-Scholes option-pricing model.

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Notes to the Consolidated Financial Statements

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9. DEBT REFINANCING

2010 Debt Refinancing Transactions

On December 10, 2010, the Company entered into a \$750,000 revolving term credit facility. This new credit facility, which matures on December 10, 2014, replaces the Company's previously existing \$800,000 revolving term credit facility that was to mature on June 6, 2011. The new credit facility, as was the case with the credit facility it replaces, is available for general corporate purposes, including backstopping the Company's \$500,000 commercial paper program. The Company recognized financing costs related to the new credit facility of \$3,281, which are netted against the long-term debt balance on the consolidated balance sheet.

2009 Debt Refinancing Transactions

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 Company's shelf 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 ("short-term debt"). The Company's senior unsecured 364-day bank credit facility was terminated on January 20, 2009.

On June 22, 2009, the Company filed with the securities regulators in all of the provinces of Canada an amendment to its short form base shelf prospectus dated May 22, 2008 (the "Amended Prospectus") to increase the aggregate principal amount of medium-term notes to be issued from \$1,000,000 to \$1,500,000. On June 22, 2010, the Amended Prospectus expired and was not renewed or extended by the Company.

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES RELATED TO FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to financial risks that have the potential to negatively impact its financial performance but it 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 negatively or positively impact the financial performance of the Company.

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10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES RELATED TO FINANCIAL INSTRUMENTS (continued)

The Company monitors market conditions and the impact of interest rate fluctuations on its fixed and floating rate debt instruments on an ongoing basis and may use interest rate derivatives to manage this exposure. Until December 2010, the Company used interest rate derivative agreements to manage a portion of the interest rate risk on its commercial paper. The Company was party to an agreement converting an aggregate notional principal amount of \$50,000 of floating rate commercial paper debt into fixed rate debt at a rate of 4.18% which expired in December 2010. The Company had an additional agreement in 2009 converting an aggregate notional principal amount of \$50,000 of floating rate commercial paper debt into fixed rate debt at a rate of 4.11%, which expired in December 2009. As at January 1, 2011, the Company no longer had any interest rate swap agreements to convert its floating rate debt into fixed rate debt. See Note 11 for further discussion of the derivative agreements.

As at January 1, 2011, the Company had \$304,410 (2009 - \$466,630) of unhedged floating rate debt. During the 12 and 52 weeks ended January 1, 2011, the Company's average outstanding unhedged floating rate debt was \$478,026 and \$538,243 (2009 - \$584,631 and \$600,562), respectively. Had interest rates been higher or lower by 50 basis points during the 12 and 52 weeks ended January 1, 2011, net earnings would have decreased or increased, respectively, by approximately \$386 and \$1,885 (2009 - \$464 and \$2,066), respectively, 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 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.

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Notes to the Consolidated Financial Statements

(unaudited)

(in thousands of dollars except per share amounts)

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES RELATED TO FINANCIAL INSTRUMENTS (continued)

The contractual maturities of the Company's financial liabilities as at January 1, 2011 are as follows:

	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	\$ 209,013	\$ -	\$ -	\$ -	\$ 209,013
Commercial paper	128,000	-	-	-	128,000
Accounts payable and accrued liabilities	930,684	6,917	-	-	937,601
Dividends payable	48,927	-	-	-	48,927
Medium-term notes	12,488	34,943	291,430	730,690	1,069,551
Other long-term liabilities	-	-	17,222	36,390	53,612
	\$ 1,329,112	\$ 41,860	\$ 308,652	\$ 767,080	\$ 2,446,704

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

11. FINANCIAL INSTRUMENTS

Interest Rate Derivative

Until December 2010, the Company used interest rate derivatives to manage a portion of the interest rate risk on its commercial paper. The Company was party to an agreement converting an aggregate notional principal amount of \$50,000 of floating rate commercial paper debt into fixed rate debt at a rate of 4.18% which expired in December 2010. The Company had an additional agreement in 2009 converting an aggregate notional principal amount of \$50,000 of floating rate commercial paper debt into fixed rate debt at a rate of 4.11%, which expired in December 2009. The Company recorded a net loss of \$3,766 (2009 - \$1,811) over the life of the agreement that expired in 2010 as interest expense on commercial paper. As at January 1, 2011, the Company no longer had any interest rate derivative agreements to convert its floating rate debt into fixed rate debt.

Based on market values of the interest rate derivative agreement in place at January 2, 2010, the Company recognized a liability of \$1,645, all of which was presented in accounts payable and accrued liabilities. During the 12 and 52 weeks ended January 1, 2011 and January 2, 2010, the Company assessed that the interest rate derivatives were effective hedges for the floating interest rates on the associated commercial paper debt.

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11. FINANCIAL INSTRUMENTS (continued)

During the 12 and 52 weeks ended January 1, 2011 and January 2, 2010, no amounts previously recorded in accumulated other comprehensive income were recognized as income in earnings.

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 and RSU Plan. The income or expense arising from the use of these instruments is included in cost of goods sold and other operating expenses for the period.

Based on market values of the equity forward agreements in place at January 1, 2011, the Company recognized a liability of \$2,257, of which \$674 is presented in accounts payable and accrued liabilities and \$1,583 was presented in other long-term liabilities. Based on market values of the equity forward agreements in place at January 2, 2010, the Company recognized a net liability of \$910, of which \$286 was presented in other assets and \$1,196 was presented in accounts payable and accrued liabilities. During the 12 and 52 weeks ended January 1, 2011 and January 2, 2010, the Company assessed that the percentages of the equity forward derivatives in place related to unearned units under the LTIP and RSU Plan were effective hedges for its exposure to future changes in the market price of its common shares in respect of the unearned units.

During the 12 and 52 weeks ended January 1, 2011, amounts previously recorded in accumulated other comprehensive loss of \$3 and \$33 (2009 - \$45 and \$294), respectively, were recognized in net 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, deposits, bank indebtedness, commercial paper, accounts payable and accrued liabilities and dividends payable approximate their carrying values at January 1, 2011 and January 2, 2010 due to their short-term maturities. The fair values of long-term receivables, the revolving term facility and other long-term liabilities approximate their carrying values at January 1, 2011 and January 2, 2010 due to the current market rates associated with these instruments. The fair value of the medium-term notes at January 1, 2011 is approximately \$997,345 (2009 - \$1,007,522) compared to a carrying value of \$950,000 (2009 - \$950,000) (excluding transaction costs) due to decreases in market interest rates for similar instruments.

The interest rate and equity forward derivatives are recognized at fair value, which is determined based on current market rates and on information received from the Company's counterparties to these agreements. The interest rate derivative was valued using the one-month Reuters Canadian Dealer Offered Rate Index. The primary valuation input for the equity forward derivatives is the Company's common share price.

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12. 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, the acquisition of sites as part of a land bank program, as well as through 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 period.

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 was in compliance with those covenants as at January 1, 2011 and January 2, 2010.

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 as at the dates indicated.

SHOPPERS DRUG MART CORPORATION
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(unaudited)
(in thousands of dollars except per share amounts)

12. CAPITAL MANAGEMENT (continued)

	January 1, 2011	January 2, 2010
Cash	\$ (64,354)	\$ (44,391)
Bank indebtedness	209,013	270,332
Commercial paper	127,828	260,386
Long-term debt	943,412	946,098
Net debt	1,215,899	1,432,425
Shareholders' equity	4,223,903	3,826,110
Total capitalization	\$ 5,439,802	\$ 5,258,535
Net debt:Shareholders' equity	0.29:1	0.37:1
Net debt:Total capitalization	0.22:1	0.27:1
EBITDA:Cash interest expense ⁽¹⁾⁽²⁾	20.16:1	19.59:1

⁽¹⁾ For purposes of calculating the ratios, EBITDA (earnings before interest, taxes, depreciation and amortization) is comprised of EBITDA for the 52 week periods then ended, as appropriate. 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.

⁽²⁾ Cash interest expense is also a non-GAAP measure and is comprised of interest expense for the 52 week periods then ended, as appropriate. It excludes the amortization of deferred financing costs and includes capitalized interest.

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

The following table provides a summary of the Company's credit ratings at January 1, 2011:

	Standard & Poor's	DBRS Limited
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 12 and 52 weeks ended January 1, 2011.

On April 8, 2010, DBRS Limited placed the short and long-term ratings of the Company under review with negative implications. The rating action was in response to the Ontario Ministry of Health and Long-Term Care's April 7, 2010 announcement with respect to further drug reform in the province. On July 30, 2010, DBRS Limited confirmed the short and long-term ratings of the Company and changed the ratings trend from under review with negative implications to stable.

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(in thousands of dollars except per share amounts)

13. CONTINGENCIES, COMMITMENTS AND GUARANTEES

Litigation

The Company has been served with a Statement of Claim in a proposed class proceeding that has been filed in the Ontario Superior Court of Justice by two of its licensed Associate-owners, claiming various declarations and damages of \$1,000,000 on behalf of a proposed class comprised of all of its current and former licensed Associate-owners resident in Canada, other than in Québec. The claim alleges, among other things, that Shoppers Drug Mart and two of its affiliates breached contractual and other duties to its Associate-owners by collecting, receiving and/or retaining funds and/or benefits that are in excess of those permitted to be collected, received and/or retained by the applicable agreements. The Company believes that the claim is without merit and will vigorously defend the claim. However, there can be no assurance that the outcome of this claim will be favourable to the Company or that it will not have a material adverse impact on the Company's financial position. The amount payable, if any, is not reasonably determinable at this time.

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.

SHOPPERS DRUG MART CORPORATION
Exhibit to the Consolidated Financial Statements
(unaudited)

Earnings Coverage Exhibit to the Consolidated Financial Statements

52 Weeks Ended January 1, 2011

Earnings coverage on long-term debt obligations	18.22 times
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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 and includes amounts capitalized to property and equipment that were included in and excluded from, respectively, interest expense as shown in the consolidated statement of earnings of the Company for the period.