

SHOPPERS DRUG MART CORPORATION

Consolidated Statements of Earnings

(unaudited)

(in thousands of dollars except per share amounts)

	12 Weeks Ended		52 Weeks Ended	
	December 29, 2007	December 30, 2006	December 29, 2007	December 30, 2006
Sales	\$ 2,168,822	\$ 2,018,067	\$ 8,478,382	\$ 7,786,436
Operating expenses				
Cost of goods sold and other operating expenses	1,885,434	1,771,151	7,516,291	6,958,361
Amortization	41,323	38,083	172,075	144,549
Operating income	242,065	208,833	790,016	683,526
Interest expense (Note 4)	14,185	10,895	52,873	49,872
Earnings before income taxes	227,880	197,938	737,143	633,654
Income taxes				
Current	72,501	65,168	249,948	220,398
Future	1,720	270	(6,433)	(9,235)
	74,221	65,438	243,515	211,163
Net earnings	\$ 153,659	\$ 132,500	\$ 493,628	\$ 422,491
Net earnings per common share:				
Basic	\$ 0.71	\$ 0.62	\$ 2.28	\$ 1.97
Diluted	\$ 0.71	\$ 0.61	\$ 2.27	\$ 1.95
Weighted average common shares outstanding				
- Basic (millions)	216.6	214.8	216.1	213.9
- Diluted (millions)	217.4	216.9	217.2	216.7
Actual common shares outstanding (millions)	216.8	215.0	216.8	215.0

SHOPPERS DRUG MART CORPORATION

Consolidated Statements of Retained Earnings

(unaudited)
(in thousands of dollars)

	52 Weeks Ended	
	December 29, 2007	December 30, 2006
Retained earnings, beginning of period	\$ 1,225,616	\$ 941,672
Impact of the adoption of new accounting standards, Handbook Sections 3855, Financial Instruments – Recognition and Measurement; 3865, Hedges; and 1530, Comprehensive Income (Note 2)	66	-
Net earnings	493,628	422,491
Dividends	(138,398)	(102,952)
Premium on common shares purchased for cancellation	(24)	(35,595)
Retained earnings, end of period	\$ 1,580,888	\$ 1,225,616

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(unaudited)
(in thousands of dollars)

	12 Weeks Ended		52 Weeks Ended	
	December 29, 2007	December 30, 2006	December 29, 2007	December 30, 2006
Net earnings	\$ 153,659	\$ -	\$ 493,628	\$ -
Other comprehensive income, net of tax				
Change in unrealized gain on interest rate derivatives (net of tax of \$727 and \$65, respectively)	(1,476)	-	24	-
Change in unrealized gain on equity forward derivatives (net of tax of \$54 and \$12, respectively)	(108)	-	(23)	-
Amount of previously unrealized gain on equity forward derivatives recognized in earnings during the period (net of tax of \$23 and \$82, respectively)	(47)	-	(160)	-
Other comprehensive loss	(1,631)	-	(159)	-
Comprehensive income	\$ 152,028	\$ -	\$ 493,469	\$ -

Accumulated other comprehensive income, upon adoption of new accounting standards (Note 2)	\$ 406	\$ -
Other comprehensive loss (net of tax of \$29)	(159)	-
Accumulated other comprehensive income, end of period	\$ 247	\$ -

SHOPPERS DRUG MART CORPORATION

Consolidated Balance Sheets

(unaudited)
(in thousands of dollars)

	December 29, 2007	December 30, 2006
Assets		
Current		
Cash	\$ 27,588	\$ 62,865
Accounts receivable	372,306	307,779
Inventory	1,577,524	1,372,124
Future income taxes	60,089	46,407
Prepaid expenses and deposits (Note 3)	134,692	32,248
	2,172,199	1,821,423
Property and equipment	1,126,513	907,728
Deferred costs	32,966	25,936
Goodwill	2,245,441	2,122,162
Other intangible assets	57,930	45,249
Other assets	8,990	6,516
Total assets	\$ 5,644,039	\$ 4,929,014
Liabilities		
Current		
Bank indebtedness	\$ 225,152	\$ 134,487
Commercial paper	543,847	503,550
Accounts payable and accrued liabilities	990,545	843,278
Income taxes payable	65,825	70,672
Dividends payable	34,686	25,797
Current portion of long-term debt	298,990	-
	2,159,045	1,577,784
Long-term debt	-	300,000
Other long-term liabilities	244,657	188,938
Future income taxes	30,171	21,689
	2,433,873	2,088,411
Associate interest	113,119	116,649
Shareholders' equity		
Share capital	1,506,020	1,491,264
Contributed surplus	9,892	7,074
Accumulated other comprehensive income	247	-
Retained earnings	1,580,888	1,225,616
	1,581,135	1,225,616
	3,097,047	2,723,954
Total liabilities and shareholders' equity	\$ 5,644,039	\$ 4,929,014

SHOPPERS DRUG MART CORPORATION

Consolidated Statements of Cash Flows

(unaudited)

(in thousands of dollars)

	12 Weeks Ended		52 Weeks Ended	
	December 29, 2007	December 30, 2006	December 29, 2007	December 30, 2006
Operating activities				
Net earnings	\$ 153,659	\$ 132,500	\$ 493,628	\$ 422,491
Items not affecting cash				
Amortization	44,932	37,284	181,418	150,088
Future income taxes	1,720	270	(6,433)	(9,235)
(Gain) loss on disposal of property and equipment	(207)	3,568	4,165	7,185
Stock-based compensation	581	951	3,544	3,492
	200,685	174,573	676,322	574,021
Net change in non-cash working capital balances	10,894	54,746	(137,697)	(26,551)
Increase in other long-term liabilities	16,227	17,260	48,464	38,990
Store opening costs	(7,782)	(7,592)	(22,031)	(16,644)
Cash flows from operating activities	220,024	238,987	565,058	569,816
Investing activities				
Purchase of property and equipment	(146,700)	(114,994)	(395,526)	(287,216)
Proceeds from disposition of property and equipment	11,220	2,982	18,014	3,269
Business acquisitions (Note 3)	(18,759)	(10,721)	(139,833)	(93,866)
Deposits (Note 3)	(18,873)	-	(93,688)	-
Other assets	(668)	3,727	(1,714)	(3,570)
Cash flows used in investing activities	(173,780)	(119,006)	(612,747)	(381,383)
Financing activities				
Bank indebtedness, net	(21,757)	(36,803)	90,665	(29,359)
Commercial paper, net	6,601	(15,200)	40,800	33,700
Repayment of long-term debt	-	(2,025)	-	(27,025)
Revolving term debt, net	-	(6,013)	-	-
Deferred financing costs	-	(2)	(20)	(454)
Associate interest	10,531	9,374	(3,530)	148
Proceeds from shares issued for stock options exercised	3,119	799	13,710	10,898
Repayment of share purchase loans	30	167	325	2,287
Repurchase of share capital	-	-	(29)	(41,789)
Dividends paid	(34,657)	(25,781)	(129,509)	(98,498)
Cash flows (used in) from financing activities	(36,133)	(75,484)	12,412	(150,092)
Increase (decrease) in cash	10,111	44,497	(35,277)	38,341
Cash, beginning of period	17,477	18,368	62,865	24,524
Cash, end of period	\$ 27,588	\$ 62,865	\$ 27,588	\$ 62,865
Supplemental cash flow information				
Interest paid	\$ 17,875	\$ 15,111	\$ 50,596	\$ 48,075
Income taxes paid	\$ 115,306	\$ 23,993	\$ 280,393	\$ 188,270

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 December 30, 2006, except as described in Note 2, Changes in Accounting Policies. 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 2006 Annual Report.

The consolidated financial statements include the accounts of Shoppers Drug Mart Corporation (the “Company”), its subsidiaries and entities considered to be variable interest entities, as defined by Accounting Guideline 15, “Consolidation of Variable Interest Entities” (“AcG-15”). Under AcG-15, the Company has consolidated the Associate-owned stores and an independent trust.

The individual Associate-owned stores that comprise the Company’s store network are variable interest entities 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 has 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 are financed through the issuance of short-term asset backed notes to third party investors. The Trust is a variable interest entity and the Company is the primary beneficiary. As such, the Trust is subject to consolidation by the Company.

Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current period’s financial statement presentation.

2. CHANGES IN ACCOUNTING POLICIES

Financial instruments

In 2006, the Canadian Institute of Chartered Accountings (“CICA”) issued new accounting standards concerning financial instruments: Financial Instruments – Recognition and Measurement (“Section 3855”); Financial Instruments – Disclosure and Presentation (“Section 3861”), Hedges (“Section 3865”); and Comprehensive Income (“Section 1530”). The standards require prospective application and were effective for the Company’s first quarter of fiscal 2007. The Company applied the new accounting standards at the beginning of its current fiscal year.

Financial assets and liabilities

Section 3855 establishes standards for recognizing and measuring financial instruments. Under the new standards, all 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.

SHOPPERS DRUG MART CORPORATION

Notes to the Consolidated Financial Statements

(unaudited)

(in thousands of dollars except per share amounts)

2. CHANGES IN ACCOUNTING POLICIES (continued)

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

Asset / Liability	Category	Measurement
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Long-term receivables*	Loans and receivables	Amortized cost
Bank indebtedness	Held for trading	Fair value
Commercial paper	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

*included in other assets in the consolidated balance sheets

Derivative and hedge accounting

The Company's interest rate derivatives have been designated as cash flow hedges and reported at fair value, in accordance with the new standards, as a component of other assets. A percentage of the equity forward derivatives, related to unearned units under the LTIP, have been designated as a hedge. The fair value of the percentage of the equity derivatives designated as a hedge has been reflected in the opening balance of accumulated other comprehensive income, net of tax.

The following table summarizes the impact on the Company's opening balance sheet for fiscal 2007 as a result of the adjustments relating to interest rate and equity forward derivatives:

	December 30, 2006 balance, as reported	Interest rate derivative	Long-term incentive plan and equity forward derivative	December 31, 2006 opening balance
Other assets	\$ 6,516	\$ 338	\$ 610	\$ 7,464
Other long-term liabilities	\$ 188,938	\$ -	\$ 234	\$ 189,172
Future income taxes (within liabilities)	\$ 21,689	\$ 115	\$ 128	\$ 21,932
Retained earnings	\$ 1,225,616	\$ -	\$ 66	\$ 1,225,682
Accumulated other comprehensive income	\$ -	\$ 223	\$ 183	\$ 406

SHOPPERS DRUG MART CORPORATION

Notes to the Consolidated Financial Statements

(unaudited)
(in thousands of dollars except per share amounts)

2. CHANGES IN ACCOUNTING POLICIES (continued)

In addition to the above adjustments, the Company has adopted the policy of adding transaction costs to financial assets and liabilities classified as other than “held for trading”, as a result, the Company’s deferred financing costs were reclassified to the debt balances to which they relate. As at December 31, 2006, the commercial paper balance was reduced by \$707 of deferred financing costs and the long-term debt balance was reduced by \$1,518 of deferred financing costs. As at December 29, 2007, the commercial paper balance was reduced by \$503 of deferred financing costs and the long-term debt balance was reduced by \$1,010 of deferred financing costs.

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

As a result of the implementation of these standards, the Consolidated Financial Statements include Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income, with the cumulative amount of other comprehensive income presented as a new category of shareholders’ equity in the Consolidated Balance Sheets.

The components of accumulated other comprehensive income as at December 29, 2007 are comprised as follows:

Accumulated other comprehensive income:

Unrealized gain on interest rate derivative (net of tax of \$180)	\$	247
Unrealized gain on equity forward derivative (net of tax of \$nil)		-
Accumulated other comprehensive income	\$	247

Equity

As a result of the issuance of guidance on financial instruments accounting, the CICA issued an amended accounting standard regarding Equity (“Section 3251”), which replaces Section 3250, Equity. The standard requires companies to disclose the impact of the new financial instruments accounting standards on equity within the Consolidated Balance Sheets and the Consolidated Statements of Retained Earnings. The standard requires prospective application and was effective for the Company’s first quarter of fiscal 2007. The Company applied the new accounting standards at the beginning of its current fiscal year.

SHOPPERS DRUG MART CORPORATION

Notes to the Consolidated Financial Statements

(unaudited)

(in thousands of dollars except per share amounts)

3. ACQUISITIONS

Centre d'Escomptes Racine

On September 25, 2007, the Company purchased the assets of the seven stores of Centre d'Escomptes Racine, a pharmacy chain in Québec. The total cost of the acquisition, including costs incurred in connection with the acquisition, was \$77,077 and will be allocated among inventory, other assets, goodwill and other intangible assets. The purchase price allocation has not been completed and the full purchase price has been recorded in goodwill.

The operations of the acquired stores 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 \$93,688 with respect to a number of offers to acquire certain pharmacies. These amounts are included in the balance of prepaid expenses and deposits as at December 29, 2007 (2006 - \$nil).

4. INTEREST EXPENSE

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

	12 Weeks Ended		52 Weeks Ended	
	December 29, 2007	December 30, 2006	December 29, 2007	December 30, 2006
Interest on bank indebtedness	\$ 2,904	\$ 1,478	\$ 10,887	\$ 7,629
Interest on commercial paper	8,343	6,200	27,593	24,902
Interest on long-term debt	2,773	3,042	13,679	15,719
Amortization of deferred financing costs	165	175	714	1,622
	\$ 14,185	\$ 10,895	\$ 52,873	\$ 49,872

5. EMPLOYEE FUTURE BENEFITS

The net benefit expense included in the results for the 12 and 52 week periods ended December 29, 2007 for benefits provided under pension plans was \$1,041 and \$6,154 (2006 - \$1,523 and \$6,604), respectively, and for benefits provided under other benefit plans was \$594 and \$671 (2006 - \$534 and \$637), respectively.

SHOPPERS DRUG MART CORPORATION
Notes to the Consolidated Financial Statements
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6. STOCK-BASED COMPENSATION

The Company uses the fair value method to account for stock options issued after 2002 under its stock option programs. If compensation expense under the fair value method of accounting had been recognized on stock options issued in 2002, the Company's net earnings for the 12 and 52 week periods ended December 29, 2007 would have been reduced by \$2 and \$176 (2006 - \$86 and \$582), respectively. For the 12 and 52 week periods ended December 29, 2007 and December 30, 2006, basic earnings per share and diluted earnings per share would have been unchanged.

For a description of the Company's stock option programs, see Note 11 to the consolidated financial statements in the Company's 2006 Annual Report.

7. FINANCING TRUST

The Company has arranged for a standby letter of credit from a syndicate of banks for the benefit of the Trust that is equal to approximately 10% of the aggregate principal amount of the loans, or \$50,000, as a form of credit enhancement which, in turn, enables the Trust to provide favourable financing terms to the Company's Associates.

As at December 29, 2007, \$499,350 (2006 - \$453,550) of the consolidated commercial paper balance is commercial paper issued by the Trust.

SHOPPERS DRUG MART CORPORATION
Exhibit to the Consolidated Financial Statements
(unaudited)
(in thousands of dollars except per share amounts)

Earnings Coverage Exhibit to the Consolidated Financial Statements

52 Weeks Ended December 29, 2007

Earnings coverage on long-term debt obligations

57.75 times

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 period.