SHOPPERS DRUG MART CORPORATION

2013 THIRD QUARTER REPORT TO SHAREHOLDERS

SHOPPERS DRUG MART CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at November 12, 2013

The following is a discussion of the consolidated financial condition and results of operations of Shoppers Drug Mart Corporation (the "Company") for the periods indicated and of certain factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. This discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements of the Company and the notes thereto for the 16 and 40 week periods ended October 5, 2013. The Company's unaudited condensed consolidated financial statements and the notes thereto have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34"), as issued by the International Accounting Standards Board (the "IASB"), and are reported in Canadian dollars. These financial statements do not contain all disclosures required for annual financial statements and, accordingly, should also be read in conjunction with the most recently prepared annual consolidated financial statements for the 52 week period ended December 29, 2012.

FORWARD-LOOKING INFORMATION AND STATEMENTS

This document contains forward-looking information and statements which constitute "forward-looking information" under Canadian securities law and which may be material regarding, among other things, the Company's beliefs, plans, objectives, estimates, intentions and expectations. Forward-looking information and statements are typically identified by words such as "anticipate", "believe", "foresee", "expect", "estimate", "forecast", "goal", "intend", "plan", "seek", "strive", "will", "may", "should", "could" and similar expressions. Specific forward-looking information in this document includes, but is not limited to, statements with respect to the Company's future liquidity and the ability to execute on its future operating, investing and financing strategies.

This document also contains forward-looking information and statements concerning the expected completion date of the Arrangement (see discussion under "Recent Developments"). There can be no assurance that the Arrangement will occur or that the anticipated strategic benefits and operational, competitive and cost synergies will be realized. The Arrangement is subject to various regulatory approvals, including approvals under the *Competition Act* (Canada) and by the Toronto Stock Exchange, and the fulfillment of certain conditions, and there can be no assurance that any such approvals will be obtained and/or any such conditions will be met. The Arrangement could be modified, restructured or terminated.

The forward-looking information and statements contained herein reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances, including but not limited to, assumptions regarding: revenue growth and operating efficiencies; the absence of an adverse event or condition that damages the Company's strong brand position and reputation; the absence of a material increase in competition; there being no significant change in the Company's ability to comply with current or future regulatory requirements; and generally stable economic and financial conditions in Canada and globally. Inherent in the forward-looking information and statements are known and unknown risks, uncertainties and other factors beyond the Company's ability to control or predict, which give rise to the possibility that the Company's predictions, forecasts, expectations or conclusions will not prove to be accurate, that its assumptions may not be correct and that the Company's plans, objectives and statements will not be achieved. Actual results or developments may differ materially from those contemplated by the forward-looking information and statements.

The material risk factors that could cause actual results to differ materially from the estimates, beliefs and assumptions expressed or implied in the forward-looking information and statements contained herein include, without limitation: the risk of adverse changes to laws and regulations relating to prescription drugs and their sale, including pharmacy reimbursement programs, prescription drug pricing and the availability of manufacturer allowances, or changes to such laws and regulations that increase compliance costs; the risk that the Company will be unable to implement successful strategies to manage the impact of the drug system reform initiatives

implemented or proposed in most provincial jurisdictions; the risk of adverse changes in economic and financial conditions in Canada and globally; the risk of increased competition from other retailers or non-traditional retail channels for distribution of prescription drugs; the risk of an inability of the Company to manage growth and maintain its profitability; the risk of exposure to fluctuations in interest rates; the risk of material adverse changes in foreign currency exchange rates; the risk of an inability to attract and retain pharmacists and key employees or effectively manage succession planning; the risk of an inability of the Company's information technology systems to support the requirements of the Company's business; the risk of changes to estimated contributions of the Company in respect of its pension plans or post-employment benefit plans which may adversely impact the Company's financial performance; the risk of changes to the relationships of the Company with third-party service providers; the risk that the Company will not be able to lease or obtain suitable store locations on economically favourable terms; the risk of adverse changes to the Company's results of operations due to seasonal fluctuations; the risk of an inability of the Company to respond to changing consumer preferences that may result in excess inventory, inventory levels that are insufficient to meet demand or inventory obsolescence; risks associated with alternative arrangements for sourcing generic drug products, including intellectual property and product liability risks; the risk that new, or changes to current, federal and provincial laws, rules and regulations, including environmental and privacy laws, rules and regulations, may adversely impact the Company's business and operations; the risk that violations of law, breaches of Company policies or unethical behaviour may adversely impact the Company's financial performance; property and casualty risks; the risk of injuries at the workplace or health issues; the risk that changes in tax law, or changes in the way that tax law is expected to be interpreted, may adversely impact the Company's business and operations; the risk that new, or changes to existing, accounting pronouncements may adversely impact the Company; the risks associated with the performance of the Associate-owned store network; the risk of material adverse effects arising as a result of litigation; the risk of damage to the reputation of brands promoted by the Company, or to the reputation of any supplier or manufacturer of these brands; product quality and product safety risks which could expose the Company to product liability claims and negative publicity; the risk that events or a series of events may cause business interruptions; and the risk of disruptions to the Company's distribution operations or supply chain which could affect the cost, timely delivery and availability of merchandise.

This is not an exhaustive list of the factors that may affect any of the Company's forward-looking information and statements. Investors and others should carefully consider these and other factors and not place undue reliance on the forward-looking information and statements. Further information regarding these and other factors is included in the Company's public filings with provincial securities regulatory authorities including, without limitation, the sections entitled "Risks and Risk Management" and "Risks Associated with Financial Instruments" in this document and in the Company's Management's Discussion and Analysis for the 52 week period ended December 29, 2012, for the 12 week period ended March 23, 2013 and for the 12 and 24 week periods ended June 15, 2013. The forward-looking information and statements contained in this discussion of the consolidated financial condition and results of operations of the Company represent the Company's views only as of the date hereof. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company does not undertake to update any forward-looking information and statements, except to the extent required by applicable securities laws.

Additional information about the Company, including the Annual Information Form, can be found at www.sedar.com.

OVERVIEW

The Company is the licensor of full-service retail drug stores operating under the name Shoppers Drug Mart® (Pharmaprix® in Québec). As at October 5, 2013, there were 1,246 Shoppers Drug Mart®/Pharmaprix® retail drug stores owned and operated by the Company's licensees ("Associates"). An Associate is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using the Company's trademarks. The Company's licensed stores are located in prime locations in each province and two territories, making Shoppers Drug Mart®/Pharmaprix® stores among the most convenient retail outlets in Canada. The Company also licenses or owns 55 medical clinic pharmacies operating under the name Shoppers Simply Pharmacy® (Pharmaprix Simplement Santé® in Québec) and six luxury beauty destinations operating as Murale™.

The Company has successfully leveraged its leadership position in pharmacy and its convenient store locations to capture a significant share of the market in front store merchandise. Front store merchandise categories include over-the-counter medications, health and beauty aids, cosmetics and fragrances (including prestige brands), everyday household needs and seasonal products. The Company also offers a broad range of high-quality private label products marketed under the trademarks Life Brand®, Quo®, Etival Laboratoire®, Baléa®, Everyday Market®, Bio-Life®, Nativa®, Simply Food® and Easypix®, among others; value-added services such as the HealthWATCH® program, which offers patient counselling and advice on medications, disease management and health and wellness; and the Shoppers Optimum® program, one of the largest retail loyalty card programs in Canada. In fiscal 2012, the Company recorded consolidated sales of approximately $10.8 billion.

Under the licensing arrangements with Associates, the Company provides the capital and financial support to enable Associates to operate Shoppers Drug Mart®, Pharmaprix®, Shoppers Simply Pharmacy® and Pharmaprix Simplement Santé® stores without any initial investment. The Company also provides a package of services to facilitate the growth and profitability of each Associate's business. These services include the use of trademarks, operational support, marketing and advertising, purchasing and distribution, information technology and accounting. In return for being provided these and other services, Associates pay fees to the Company. Fixtures, leasehold improvements and equipment are purchased by the Company and leased to Associates over periods ranging from two to 15 years, with title retained by the Company. The Company also provides its Associates with assistance in meeting their working capital and long-term financing requirements through the provision of loans and/or loan guarantees.

Under the licensing arrangements, the Company receives a substantial share of Associate store profits. The Company's share of Associate store profits is reflective of its investment in, and commitment to, the operations of the Associates' stores.

The Company operates in Québec primarily under the Pharmaprix® and Pharmaprix Simplement Santé® trade names. Under Québec law, profits generated from the prescription area or dispensary may only be earned by a pharmacist or a corporation controlled by a pharmacist. As a result of these restrictions, the licence agreement used for Québec Associates differs from the Associate agreement used in other provinces. Pharmaprix® and Pharmaprix Simplement Santé® stores and their Associates benefit from the same infrastructure and support provided to all other Shoppers Drug Mart® and Shoppers Simply Pharmacy® stores and Associates.

Associate-owned stores comprise the majority of the Company's store network. The Associate-owned stores are separate legal entities and the Company does not have any direct or indirect shareholdings in these Associate-owned stores. The Company consolidates the Associate-owned stores in accordance with IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), based on the concept of control under IFRS 10, determined primarily through the licensing arrangements that govern the relationship between the Company and the Associates. However, as the Associate-owned stores remain separate legal entities from the Company, consolidation of these stores has no impact on the underlying risks facing the Company.

The Company also owns and operates 62 Shoppers Home Health Care® stores. These retail stores are engaged in the sale and service of assisted-living devices, medical equipment, home-care products and durable mobility equipment to institutional and retail customers.

In addition to its retail store network, the Company owns Shoppers Drug Mart Specialty Health Network Inc., a provider of specialty drug distribution, pharmacy and comprehensive patient support services; and MediSystem Technologies Inc., a provider of pharmaceutical products and services to long-term care facilities.

The majority of the Company's sales are generated from its retail drug store network and the majority of the Company's assets are used in the operations of these stores. As such, the Company presents one operating segment in its consolidated financial statement disclosures. The revenue generated by Shoppers Drug Mart Specialty Health Network Inc. and by MediSystem Technologies Inc. is included with the pharmacy sales of the Company's retail drug stores. The revenue generated by the Shoppers Home Health Care® stores and the Murale™ stores is included with the front store sales of the Company's retail drug stores.

RECENT DEVELOPMENTS

On July 15, 2013, the Company announced a proposed transaction pursuant to which Loblaw Companies Limited ("Loblaw") will acquire all of the issued and outstanding common shares of the Company by way of a plan of arrangement under section 192 of the *Canada Business Corporations Act* (the "Arrangement"). Under the terms of the Arrangement, Loblaw will acquire each common share of the Company for consideration consisting of $33.18 in cash plus 0.5965 Loblaw common shares, on a fully pro-rated basis, pursuant to the terms of an arrangement agreement dated July 14, 2013 between the Company and Loblaw (the "Arrangement Agreement").

The Arrangement was approved by approximately 99.89% of the votes cast by all of the shareholders of the Company eligible to vote at a special meeting of the Company's shareholders to consider the Arrangement, which was held on September 12, 2013. On September 16, 2013, the Ontario Superior Court of Justice (Commercial List) issued a final order approving the Arrangement.

Completion of the Arrangement remains conditional on obtaining Competition Act Approval (as such term is defined in the Arrangement Agreement), and certain other closing conditions customary in transactions of this nature. Subject to the satisfaction or waiver of all other conditions precedent to the Arrangement, it is anticipated that the Arrangement will be completed before the end of the first quarter of 2014.

OVERALL FINANCIAL PERFORMANCE

Key Operating, Investing and Financial Metrics

The following provides an overview of the Company's operating performance for the 16 and 40 week periods ended October 5, 2013 compared to the 16 and 40 week periods ended October 6, 2012, as well as certain other metrics with respect to investing activities for the 16 and 40 week periods ended October 5, 2013 and financial position as at that same date.

- Third quarter sales of $3.287 billion, an increase of 2.4%.
  - Year-to-date sales of $8.311 billion, an increase of 3.1%.
- Third quarter comparable store total sales growth of 2.2%; comparable store pharmacy sales growth of 1.8% and comparable store front store sales growth of 2.4%.
  - Year-to-date comparable store total sales growth of 2.2%; comparable store pharmacy sales growth of 1.6% and comparable store front store sales growth of 2.7%.
- Third quarter retail prescription count growth of 5.3%; comparable store retail prescription count growth of 4.1%.
  - Year-to-date retail prescription count growth of 6.4%; comparable store retail prescription count growth of 4.8%.
- Third quarter EBITDA[(1)] of $329 million; adjusted EBITDA of $342 million[(2)] compared to adjusted EBITDA of $343 million[(3)] in the same period last year.
  - Year-to-date EBITDA of $866 million; adjusted EBITDA of $880 million[(2)], unchanged from adjusted EBITDA in the same period last year[(4)].
- Third quarter EBITDA margin[(5)] of 10.00%; adjusted EBITDA margin[(6)] of 10.41%, a decrease of 29 basis points compared to adjusted EBITDA margin of 10.70% in the same period last year.
  - Year-to-date EBITDA margin of 10.42%; adjusted EBITDA margin of 10.59%, a decrease of 32 basis points compared to adjusted EBITDA margin of 10.91% in the same period last year.
- Third quarter adjusted net earnings of $176 million[(7)] compared to adjusted net earnings of $177 million[(8)] in the same period last year.
  - Year-to-date adjusted net earnings of $442 million[(7)] compared to adjusted net earnings of $445 million[(9)] in the first three quarters of 2012.
- Third quarter adjusted net earnings per share of $0.88, an increase of 3.5% compared to adjusted net earnings per share of $0.85 in the same period last year.
  - Year-to-date adjusted net earnings per share of $2.19, an increase of 2.8% compared to adjusted net earnings per share of $2.13 in the first three quarters of 2012.

- Third quarter capital expenditure program of $95 million compared to $162 million in the same period of the prior year. Opened six new drug stores, one of which was a relocation, and completed five major drug store expansions.
  - Year-to-date capital expenditure program of $213 million compared to $310 million in the same period of the prior year. Opened 21 new drug stores, eight of which were relocations, acquired five drug stores (one of which was amalgamated with an existing store) and one long-term care pharmacy, completed 15 major drug store expansions and relocated one home health care store.
  - Year-over-year increase in retail selling square footage of 1.3%.
- Third quarter share repurchases of 475,000 common shares at an aggregate cost of $23 million, representing an average repurchase price of $47.64 per common share.
  - Year-to-date share repurchases of 4,524,400 common shares at an aggregate cost of $201 million, representing an average repurchase price of $44.38 per common share.
- Maintained desired capital structure and financial position.
  - Net debt to equity ratio of 0.30:1 at October 5, 2013, unchanged when compared to a year ago.
  - Net debt to total capitalization ratio of 0.23:1 at October 5, 2013, unchanged when compared to a year ago.

(1) Earnings before finance expenses, income taxes and depreciation and amortization. (See reconciliation to the most directly comparable IFRS measure under "Results of Operations" in this Management's Discussion and Analysis.)

(2) EBITDA, excluding the impact of third quarter transaction-related costs of $14 million (pre-tax) associated with the pending acquisition of the Company by Loblaw.

(3) EBITDA, excluding the impact of a third quarter restructuring charge of $13 million (pre-tax) stemming primarily from a rationalization of the Company's central office functions.

(4) EBITDA, excluding the impact of a second quarter charge of $5 million (pre-tax) from the closure of two Murale™ stores and the pre-tax impact of the restructuring charge referred to in footnote (3) above.

(5) EBITDA divided by sales.

(6) Adjusted EBITDA divided by sales.

(7) Net earnings, excluding the after-tax impact of the transaction-related costs referred to in footnote (2) above.

(8) Net earnings, excluding the after-tax impact of the restructuring charge referred to in footnote (3) above.

(9) Net earnings, excluding the after-tax impact of a second quarter charge of $5 million (pre-tax) from the closure of two Murale™ stores, as well as the after-tax impact of the restructuring charge referred to in footnote (3) above.

Results of Operations

The following table presents a summary of certain selected consolidated financial information for the Company for the periods indicated.

($000s, except per share data)	16 Weeks Ended October 5, 2013 (unaudited)	16 Weeks Ended October 6, 2012 (unaudited)	40 Weeks Ended October 5, 2013 (unaudited)	40 Weeks Ended October 6, 2012 (unaudited)
Sales	$ 3,286,917	$ 3,209,142	$ 8,310,879	$ 8,060,277
Cost of goods sold	2,028,344	1,977,494	5,114,723	4,947,204
Gross profit	1,258,573	1,231,648	3,196,156	3,113,073
Operating and administrative expenses	1,021,091	987,393	2,571,922	2,484,096
Operating income	237,482	244,255	624,234	628,977
Finance expenses	14,885	17,638	41,636	44,285
Earnings before income taxes	222,597	226,617	582,598	584,692
Income taxes	56,763	58,920	150,363	152,916
Net earnings	$ 165,834	$ 167,697	$ 432,235	$ 431,776
Net earnings per common share				
- Basic	$ 0.83	$ 0.81	$ 2.14	$ 2.06
- Diluted	$ 0.83	$ 0.81	$ 2.14	$ 2.06

EBITDA Reconciliation

Net earnings	$ 165,834	$ 167,697	$ 432,235	$ 431,776
Add the following:				
- Income taxes	56,763	58,920	150,363	152,916
- Finance expenses	14,885	17,638	41,636	44,285
Operating income	237,482	244,255	624,234	628,977
Add the following:				
- Depreciation and amortization expense	91,143	86,332	242,014	232,811
EBITDA	$ 328,625	$ 330,587	$ 866,248	$ 861,788

Sales

Sales represent the combination of sales of the retail drug stores owned by the Associates, sales at Murale™ and sales of the home health care business, Shoppers Drug Mart Specialty Health Network Inc. and MediSystem Technologies Inc. The majority of the Company's sales are generated from its retail drug store network and the majority of the Company's assets are used in the operations of these stores. As such, the Company presents one operating segment in its consolidated financial statement disclosures. Sales at Murale™ and sales of the home health care business are included with front store sales of the Company's retail drug stores. Sales of Shoppers Drug Mart Specialty Health Network Inc. and MediSystem Technologies Inc. are included with pharmacy sales of the Company's retail drug stores.

Sales are recognized as revenue when the goods are sold to the customer. Revenue is net of returns and award credits. Where a sales transaction includes points awarded under the Shoppers Optimum® loyalty card program (the "Program"), revenue allocated to the Program points is initially deferred based on the fair value of the award credits and is subsequently recognized as revenue when the Program points are redeemed and the Company fulfills its obligations to supply the awards.

Revenue is measured at the fair value of the consideration received or receivable from the customer for products sold or services supplied. However, for certain products or services, such as the sale of lottery tickets, third-party prepaid phone cards, third-party gift cards, postal products and services and public transportation tickets, the Company acts as an agent and, consequently, records only the amount of commission income in its sales.

Sales in the third quarter of 2013 were $3.287 billion compared to $3.209 billion in the same period last year, an increase of $78 million or 2.4%, driven by continued strength in prescription count growth and solid results in the front of the store, where the average basket size increased on steady customer traffic. On a same-store basis, sales increased 2.2% during the third quarter of 2013. Year-to-date, sales were $8.311 billion, an increase of 3.1% over the same period last year. On a same-store basis, sales increased 2.2% during the first three quarters of 2013.

Pharmacy sales were $1.582 billion in the third quarter of 2013 compared to $1.540 billion in the third quarter of 2012, an increase of $42 million or 2.7%, as strong growth in the number of prescriptions filled at retail, combined with sales gains in the Company's long-term care business, were partially offset by a further reduction in average prescription value. On a same-store basis, pharmacy sales increased 1.8% during the third quarter of 2013. During the third quarter of 2013, the number of prescriptions dispensed at retail increased 5.3% when compared to the same period last year and was up 4.1% on a same-store basis. Consistent with recent quarterly trends, pharmacy volume growth remains strongest in Ontario and Alberta. Year-over-year, average prescription value at retail declined a further 2.7% during the third quarter of 2013, largely the result of further reductions in generic prescription reimbursements rates due to ongoing drug system reform initiatives in all provincial jurisdictions, along with increasing generic prescription utilization rates. Generic molecules represented 61.6% of prescriptions dispensed in the third quarter of 2013 compared to 60.1% in the same quarter last year. During the third quarter of 2013, pharmacy sales accounted for 48.1% of the Company's sales mix compared to 48.0% in the same period last year. Year-to-date, pharmacy sales increased 3.0% to $3.996 billion and accounted for 48.1% of the Company's sales mix, unchanged from the same period last year. On a same-store basis, pharmacy sales increased 1.6% during the first three quarters of 2013. Year-to-date, the number of prescriptions dispensed at retail increased 6.4% compared to the same period last year and was up 4.8% on a same-store basis. Generic molecules represented 61.2% of prescriptions dispensed in the first three quarters of 2013 compared to 58.9% in the same period last year.

Front store sales were $1.705 billion in the third quarter of 2013 compared to $1.669 billion in the third quarter of 2012, an increase of $36 million or 2.2%, led by strong growth in cosmetics, over-the-counter medications and food and confection. In response to heightened competitive pressure in the marketplace, the Company invested more heavily in promotional activity in the third quarter of 2013, which proved effective in driving an increase in average basket size. On a same-store basis, front store sales increased 2.4% during the third quarter of 2013. Year-to-date, front store sales were $4.315 billion, an increase of 3.2% over the same period last year. On a same-store basis, front store sales increased 2.7% during the first three quarters of 2013.

Cost of Goods Sold

Cost of goods sold is comprised of the cost of goods sold at the retail drug stores owned by the Associates, the cost of goods sold at Murale™ and the cost of goods sold at the home health care business, Shoppers Drug Mart Specialty Health Network Inc. and MediSystem Technologies Inc.

Cost of goods sold was $2.028 billion in the third quarter of 2013 compared to $1.977 billion in the same period last year, an increase of $51 million or 2.6%. Expressed as a percentage of sales, cost of goods sold increased by 9 basis points in the third quarter of 2013 compared to the same period last year. Year-over-year, gross profit dollars increased 2.2% in the third quarter of 2013, as the benefits from strong sales and prescription count growth were partially offset by downward pressure on margins in the dispensary, largely due to the implementation of additional drug system reform measures, and in the front of the store where competitive activity intensified.

Year-to-date, cost of goods sold increased by 3.4% to $5.115 billion. Expressed as a percentage of sales, cost of goods sold increased by 16 basis points in the first three quarters of 2013 versus the comparative prior year period.

Operating and administrative expenses

Operating and administrative expenses include corporate selling, general and administrative expenses, operating expenses at the retail drug stores owned by the Associates, including Associates' earnings, operating expenses at Murale™ and operating expenses at the home health care business, Shoppers Drug Mart Specialty Health Network Inc. and MediSystem Technologies Inc. Operating and administrative expenses also include depreciation and amortization expenses. (See note 6 to the accompanying unaudited condensed consolidated financial statements of the Company.)

Operating and administrative expenses, excluding depreciation and amortization expense, were $930 million in the third quarter of 2013. This amount is inclusive of transaction-related costs of $14 million (pre-tax) associated with the pending acquisition of the Company by Loblaw. Excluding the impact of these transaction-related costs, adjusted operating and administrative expenses, excluding depreciation and amortization expense, were $916 million compared to an adjusted amount of $888 million in the same period last year, an increase of $28 million or 3.1%. Adjusted operating and administrative expenses, excluding depreciation and amortization expense, for the third quarter of 2012 excludes the impact of a restructuring charge of $13 million (pre-tax) stemming primarily from the rationalization and realignment of the Company's central office functions. In addition to higher store-level expenses, primarily occupancy, wages and benefits, this increase was driven in part by increased expenses at Medisystem Technologies Inc. which is commensurate with sales growth in the Company's long-term care business. Expressed as a percentage of sales, adjusted operating and administrative expenses, excluding depreciation and amortization expense, increased by 20 basis points in the third quarter of 2013 when compared to the same period last year, an increase that also reflects, in part, the impact of further top-line deflation attributable to drug system reform initiatives and greater generic prescription utilization.

Year-to-date, operating and administrative expenses, excluding depreciation and amortization expense, were $2.330 billion. Excluding the third quarter transaction-related costs of $14 million (pre-tax) referred to above, adjusted operating and administrative expenses, excluding depreciation and amortization expense, were $2.316 billion in the first three quarters of 2013 compared to an adjusted amount of $2.233 billion in the same period last year, an increase of $83 million or 3.7%. Adjusted operating and administrative expenses, excluding depreciation and amortization expense, for the first three quarters of 2012 excludes the impact of the aforementioned third quarter restructuring charge of $13 million (pre-tax) and a second quarter charge of $5 million (pre-tax) from the closure of two Murale™ stores. Expressed as a percentage of sales, adjusted operating and administrative expenses, excluding depreciation and amortization expense, increased by 16 basis points in the first three quarters of 2013 when compared to the same period last year.

Third quarter depreciation and amortization expense was $91 million compared to $86 million in the same period last year, an increase of $5 million or 5.6%. Depreciation and amortization expense for the third quarter of both years included comparable pre-tax gains on disposal of approximately $13 million in respect of sale-leaseback transactions involving certain of the Company's retail properties. This year-over-year increase can be primarily

attributed to store network growth and expansion initiatives, including higher amortization of prescription files related to acquisitions, along with additional investments in supporting infrastructure. Expressed as a percentage of sales, depreciation and amortization expense increased by eight basis points in the third quarter of 2013 when compared to the same period last year.

Depreciation and amortization expense was $242 million for the first three quarters of 2013 compared to $233 million in the same period last year, an increase of $9 million or 4.0%. Expressed as a percentage of sales, depreciation and amortization expense increased by two basis points in the first three quarters of 2013 when compared to the same period of last year.

Operating Income

Third quarter operating income was $237 million compared to $244 million in the same period last year. Operating income for the third quarter of 2013 includes the transaction-related costs of $14 million (pre-tax) referred to above, while operating income for the third quarter of 2012 included the restructuring charge of $13 million (pre-tax), also referred to above. Excluding the impact of these items, adjusted operating income was $251 million in the third quarter of 2013 compared to $257 million in the same period last year. As described above, the benefits from strong sales and prescription count growth were partially offset by downward pressure on margins in both the dispensary and in the front of the store, resulting in a year-over-year increase in gross profit dollars of 2.2%. However, these gains were more than offset by higher adjusted operating and administrative expenses, inclusive of depreciation and amortization expense, which increased 3.4% when compared to the same period last year. Third quarter adjusted operating margin (adjusted operating income divided by sales) declined by 37 basis points to 7.64% compared to an adjusted operating margin of 8.01% in the third quarter of 2012. The Company's EBITDA margin (EBITDA divided by sales) was 10.00% in the third quarter of 2013. Excluding the impact of the aforementioned transaction-related costs of $14 million (pre-tax), adjusted EBITDA margin was 10.41% in the third quarter of 2013, a 29 basis point decline when compared to the adjusted EBITDA margin of 10.70% posted in the same period last year. Adjusted EBITDA for the third quarter of the prior year excludes the impact of the restructuring charge of $13 million (pre-tax) referred to above.

Year-to-date, operating income was $624 million compared to $629 million in the same period last year. Excluding the impact of the previously referenced transaction-related costs of $14 million (pre-tax), adjusted operating income was $638 million in the first three quarters of 2013 compared to adjusted operating income of $647 million in the same period last year, a decrease of $9 million or 1.4%. Adjusted operating income for the first three quarters of 2012 excluded the impact of the aforementioned restructuring charge of $13 million (pre-tax) and a second quarter charge of $5 million (pre-tax) from the closure of two Murale™ stores. Year to date, adjusted operating margin declined by 34 basis points to 7.68% compared to an adjusted operating margin of 8.02% in the first three quarters of 2012. During the first three quarters of 2013, the Company's EBITDA margin was 10.42%. Excluding the impact of the above-referenced transaction-related costs of $14 million (pre-tax), adjusted EBITDA margin in the first three quarters of 2013 was 10.59%, a 32 basis point reduction when compared to the adjusted EBITDA margin of 10.91% posted in the same period last year. Adjusted EBITDA for the first three quarters of 2012 excluded the impact of the previously referenced charges of $13 million (pre-tax) for restructuring and $5 million (pre-tax) from the closure of two Murale™ stores.

Finance expenses

Finance expenses are comprised of interest expense arising from borrowings at the Associate-owned stores and from debt obligations of the Company, interest associated with financing leases and the amortization of transaction costs incurred in conjunction with debt transactions.

Finance expenses were $15 million in the third quarter of 2013 compared to $18 million in the same period last year, a decrease of $3 million or 15.6%. Savings realized from the refinancing of $450 million of medium-term notes late in the second quarter of 2013 were partially offset by the Company having a higher year-over-year average amount of net debt outstanding, combined with an increase in interest costs associated with financing leases and a reduction in the amount of capitalized interest. Year-to-date, finance expenses were $42 million compared to $44 million in the first three quarters of the prior year, a decrease of $2 million or 6.0%.

Income Taxes

The Company's effective income tax rate in the third quarter and first three quarters of 2013 was 25.5% and 25.8%, respectively, compared to 26.0% and 26.2% in the same respective periods of the prior year. These year-over-year decreases in the effective income tax rates can be primarily attributed to a reduction in statutory rates.

Net Earnings

Third quarter net earnings were $166 million compared to $168 million in the same period last year. On a diluted basis, net earnings per share were $0.83 in the third quarter of 2013 compared to $0.81 in the same period last year, an increase of 2.5%. Net earnings for the third quarter of 2013 are inclusive of the transaction-related costs of $14 million (pre-tax) referred to above. Net earnings for the third quarter of the prior year included a restructuring charge of $13 million (pre-tax), also referred to above. Excluding the impact of these items, adjusted net earnings for the third quarter of 2013 were $176 million compared to $177 million in the same period last year. On a diluted basis, adjusted net earnings per share were $0.88 in the third quarter of 2013 compared to $0.85 in the same period last year, an increase of 3.5%. Adjusted net earnings per share for both years included comparable pre-tax gains on disposal of approximately $13 million in respect of sale-leaseback transactions involving certain of the Company's retail properties. In addition to the earnings factors noted above, the cumulative impact of the Company's share repurchase program had a positive impact on growth in net earnings per share during the third quarter of 2013, as there were 3.4% fewer diluted shares outstanding (on a weighted average basis) compared to the same period last year.

Year-to-date, net earnings were $432 million, unchanged when compared to the same period last year. Excluding the impact of the above referenced transaction-related costs of $14 million (pre-tax), adjusted net earnings were $442 million in the first three quarters of 2013 compared to adjusted net earnings of $445 million in the same period last year, a decrease of $3 million or 0.6%. In addition to excluding the impact of the restructuring charge of $13 million (pre-tax) noted above, adjusted net earnings for the first three quarters of 2012 also excluded the impact of a second quarter charge of $5 million (pre-tax) from the closure of two Murale™ stores. On a diluted basis, adjusted net earnings per share were $2.19 in the first three quarters 2013 compared to $2.13 in the same period last year, an increase of 2.8%.

Capitalization and Financial Position

The following table provides a summary of certain information with respect to the Company's capitalization and consolidated financial position at the dates indicated.

($000s)	October 5, 2013	December 29, 2012
Cash	$ (47,844)	$ (104,529)
Bank indebtedness	299,743	170,927
Commercial paper	185,986	249,977
Current portion of long-term debt	249,877	449,798
Long-term debt	495,730	247,009
Financing lease obligations	132,576	125,774
Net debt	1,316,068	1,138,956
Shareholders' equity	4,387,482	4,318,450
Total capitalization	$ 5,703,550	$ 5,457,406
Net debt:Shareholders' equity	0.30:1	0.26:1
Net debt:Total capitalization	0.23:1	0.21:1
Net debt:EBITDA[(1)]	1.10:1	0.96:1
EBITDA:Cash interest expense[(1)(2)]	22.13:1	20.74:1

(1) For purposes of calculating the ratios, EBITDA is comprised of the EBITDA for each of the 52 week periods then ended.

(2) Cash interest expense is comprised of finance expenses for each of the 52 week periods then ended and excludes the amortization of deferred financing costs, but includes capitalized interest.

Credit Ratings

The following table provides a summary of the Company's credit ratings at October 5, 2013.

	Standard & Poor's	DBRS Limited
Corporate/Issuer credit rating	BBB+/Watch Negative	A (low)/Under Review - Negative
Senior unsecured debt	BBB+/Watch Negative	A (low)/Under Review - Negative
Commercial paper	-	R-1 (low)/Under Review - Negative

In the third quarter of 2013, following the announcement of the pending acquisition of the Company by Loblaw, Standard & Poor's changed its ratings from "Stable" to "Watch with Negative Implications" and DBRS Limited changed its ratings from "Stable" to "Under Review – Negative".

Outstanding Share Capital

The Company's outstanding share capital is comprised of common shares. An unlimited number of common shares is authorized and the Company had 200,151,534 common shares outstanding at November 12, 2013. As at this same date, the Company had issued options to acquire 785,958 of its common shares pursuant to its stock-based compensation plans, of which 295,008 were exercisable.

Normal Course Issuer Bid

On February 7, 2013, the Company announced that its Board of Directors approved the renewal of its normal course issuer bid program and authorized the purchase of up to 10,200,000 of its common shares, representing approximately 5.0% of its common shares then outstanding, by way of normal course purchases effected through the facilities of the TSX (the "2013 NCIB Program"). The Company was able to commence purchases under the 2013 NCIB Program on February 15, 2013. The 2013 NCIB Program will terminate on February 14, 2014, or on such earlier date as the Company may complete its purchases pursuant to a Notice of Intention filed with the TSX. Purchases will be made by the Company in accordance with the requirements of the TSX and the price which the Company will pay for any such common shares will be the market price of any such common shares at the time of acquisition, or such other price as may be permitted by the TSX. In connection with the 2013 NCIB Program, the Company entered into an automatic purchase plan with its designated broker to allow for purchases of its common shares during certain pre-determined black-out periods, subject to certain parameters as to price and number of shares ("the Purchase Plan"). Outside of these pre-determined black-out periods, shares will be repurchased in accordance with management's discretion, subject to applicable law. For purposes of the TSX rules, a maximum of 146,845 common shares may be purchased by the Company on any one day under the 2013 NCIB Program, except where purchases are made in accordance with the "block purchase exception" of the TSX rules. Common shares purchased by the Company will be cancelled.

During the third quarter of 2013, the Company repurchased 475,000 common shares under its 2013 NCIB Program at an aggregate cost of $23 million, representing an average repurchase price of $47.64 per common share. Year-to-date, the Company has repurchased a total of 4,524,400 common shares (comprised of 580,000 common shares under its previous normal course issuer bid program and 3,944,400 common shares under the 2013 NCIB program) at an aggregate cost of $201 million, representing an average repurchase price of $44.38 per common share. At the end of the third quarter, all of the repurchased common shares were cancelled. The premium paid over the average book value of the repurchased common shares has been charged to retained earnings. (See note 9 to the accompanying unaudited condensed consolidated financial statements of the Company.)

In conjunction with the announcement of the pending acquisition of the Company by Loblaw, the Purchase Plan was automatically terminated on July 15, 2013. In accordance with the terms of the Arrangement Agreement, the Company does not anticipate any future share repurchase activity during the remaining term of the 2013 NCIB Program.

Liquidity and Capital Resources

Sources of Liquidity

The Company has the following sources of liquidity: (i) cash provided by operating activities; (ii) cash available from a committed $725 million revolving bank credit facility maturing December 10, 2016, less what is currently drawn and/or being utilized to support commercial paper issued and outstanding; and (iii) up to $600 million in availability under its commercial paper program, less what is currently issued. The Company's commercial paper program is rated R-1 (low) by DBRS Limited. In the event that the Company's commercial paper program is unable to maintain this rating, the program is supported by the Company's $725 million revolving bank credit facility. At October 5, 2013, $10 million of the Company's $725 million revolving bank credit facility was utilized, all in respect of outstanding letters of credit, unchanged compared to the end of the second quarter of 2013 and the end of the prior year. At October 5, 2013, the Company had $186 million of commercial paper issued and outstanding under its commercial paper program compared to $200 million at the end of the second quarter of 2013 and $250 million at the end of the prior year.

The Company has also arranged for its Associates to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. At the end of the third quarter of 2013, the Company's maximum obligation in respect of such guarantees was $550 million, unchanged from the end of the second quarter of 2013. At the end of the prior year, the Company's maximum obligation in respect of such guarantees was $540 million. At October 5, 2013, an aggregate amount of $473 million in available lines of credit had been allocated to the Associates by the various banks compared to $470 million at the end of the second quarter of 2013 and $464 million at the end of the prior year. At October 5, 2013, Associates had drawn an aggregate amount of $336 million against these available lines of credit compared to $337 million at the end of the second quarter of 2013 and $173 million at the end of the prior year. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associate-owned stores, subject to certain prior-ranking statutory claims. As the Company is involved in allocating the available lines of credit to its Associates, it estimates that the net proceeds from secured assets would exceed the amount of any payments required in respect of the guarantees.

The Company has obtained additional long-term financing from the issuance of $250 million aggregate principal amount of five-year, medium-term notes maturing January 20, 2014, which bear interest at a fixed rate of 5.19% per annum (the "Series 4 Notes"); $225 million aggregate principal amount of three-year, medium-term notes maturing May 24, 2016, which bear interest at a fixed rate of 2.01% per annum (the "Series 5 Notes"); and $275 million aggregate principal amount of five-year, medium-term notes maturing May 24, 2018, which bear interest at a fixed rate of 2.36% per annum (the "Series 6 Notes"). The Series 4 Notes were issued pursuant to a final short form base shelf prospectus dated May 22, 2008 (the "2008 Prospectus"), as supplemented by a pricing supplement dated January 14, 2009. The Series 5 Notes and Series 6 Notes were issued pursuant to a final short form base shelf prospectus dated January 6, 2012 (the "2012 Prospectus"), as supplemented by pricing supplements dated May 15, 2013. The 2008 Prospectus, the 2012 Prospectus and the pricing supplements were filed by the Company with Canadian securities regulators in all of the provinces of Canada. At the time of issuance, the medium-term notes were assigned ratings of A (low) from DBRS Limited and BBB+ from Standard & Poor's Rating Services (Canada).

Cash Flows From Operating Activities

Cash flows from operating activities were $147 million in the third quarter of 2013 compared to $234 million in the same period last year, a decrease of $87 million. This decrease can be primarily attributed to an increase in the amount invested in non-cash working capital balances compared to the same period last year, along with a shift in the timing of income taxes paid. The year-over-year variance in non-cash working capital investment can be primarily attributed to an increase in accounts receivable compared to the same period last year. (See note 12 to the accompanying unaudited condensed consolidated financial statements of the Company.)

Year-to-date, the Company has generated $367 million of cash from operating activities compared to $549 million in the first three quarters of 2013.

Cash Flows Used in Investing Activities

Cash flows used in investing activities were $50 million in the third quarter of 2013 compared to $113 million in the same period last year, a decrease of $63 million. Of these totals, purchases of property and equipment amounted to $74 million in the third quarter of 2013 compared to $65 million in the same period last year. During the third quarter of 2013, the Company did not invest any funds in the acquisition of drug stores and prescription files. In the third quarter of 2012, the Company invested $83 million in business acquisitions, $72 million of which was used to acquire substantially all of the assets of Paragon Pharmacies Limited. The Company invested a combined $20 million in the purchase and development of intangible and other assets during the third quarter of 2013 compared to $14 million in the same period last year. Partially offsetting these investments in the third quarter of 2013 was $45 million of proceeds, primarily resulting from the disposition of four retail locations in a sale-leaseback transaction. In the third quarter of 2012, the Company recognized $43 million of proceeds related to a sale-leaseback transaction involving five retail locations.

Year-to-date, cash flows used in investing activities were $167 million compared to $287 million in the first three quarters of 2012, a decrease of $120 million. Of these totals, purchases of property and equipment, net of proceeds

from any dispositions, amounted to $102 million in the first three quarters of 2013 compared to $124 million in the same period last year. Investments in business acquisitions, primarily drug stores and prescription files, were $24 million in the first three quarters of 2013 compared to $96 million in the same period last year. During the first three quarters of 2013, the Company invested a combined $35 million in the purchase and development of intangible and other assets compared to $38 million in the same period last year. During the first three quarters of 2013, the balance of funds deposited and held in escrow in respect of outstanding offers to purchase drug stores and land increased by $6 million compared to an increase of $29 million in the first three quarters of last year.

During the third quarter of 2013, the Company opened six new drug stores, one of which was a relocation, and completed five major drug store expansions. In addition to this activity, three smaller outpatient hospital pharmacies were closed. Year-to-date, 21 new drug stores have been opened, eight of which were relocations, and 15 major drug store expansions were completed. The Company has also acquired five drug stores (one of which was amalgamated with an existing store) and one long-term care facility. In addition to this activity, one Shoppers Home Health Care® store was relocated, eight smaller drug stores were consolidated or closed and three smaller outpatient hospital pharmacies were closed. At the end of the third quarter of 2013, there were 1,369 retail stores in the Company's network, comprised of 1,301 drug stores (1,246 Shoppers Drug Mart®/Pharmaprix® stores and 55 Shoppers Simply Pharmacy®/Pharmaprix Simplement Santé® stores), 62 Shoppers Home Health Care® stores and six Murale™ stores.

Cash Flows Used in Financing Activities

Cash flows used in financing activities were $78 million in the third quarter of 2013, as cash outflows of $101 million were partially offset by cash inflows of $23 million. Cash outflows were comprised of $29 million to settle share repurchases, a $14 million decrease in the amount of commercial paper issued and outstanding by the Company under its commercial paper program, a $1 million repayment of financing lease obligations and $57 million for the payment of dividends. Cash inflows were comprised of $6 million of proceeds received from the issuance of common shares under the Company's stock-based incentive program, a $9 million increase in bank indebtedness and an $8 million increase in the amount of Associate investment.

In the third quarter of 2013, the net result of the Company's operating, investing and financing activities was an increase in cash of $18 million.

Year-to-date, cash flows used in financing activities were $256 million and the net result of the Company's operating, investing and financing activities was a decrease in cash of $57 million.

Future Liquidity

The Company believes that its current credit facilities, commercial paper program and financing programs available to its Associates, together with cash generated from operating activities, will be sufficient to fund its operations, including the operations of its Associate-owned store network, investing activities and commitments for the foreseeable future. Historically, the Company has not experienced any major difficulty in obtaining additional short or long-term financing given its investment grade credit ratings. While the Company is committed to maintaining its investment grade credit ratings, credit ratings may be revised or withdrawn at any time by the rating agencies if, in their judgment, circumstances warrant.

NEW ACCOUNTING PRONOUNCEMENTS

Accounting Standards Implemented in 2013

Fair Value Measurement

The IASB issued a new standard, IFRS 13, "Fair Value Measurement" ("IFRS 13"), which provides a standard definition of fair value, sets out a framework for measuring fair value and provides for specific disclosures about fair value measurements. IFRS 13 applies to all International Financial Reporting Standards that require or permit fair value measurements or disclosures. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and is to be applied prospectively. The Company determined that the adoption of IFRS 13 had no impact on its results of operations and financial position. The adoption of IFRS 13 has resulted in additional disclosures in Note 8 to the accompanying unaudited condensed consolidated financial statements of the Company.

Consolidated Financial Statements

The IASB issued a new standard, IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 establishes control as the basis for consolidation and defines the principle of control. An investor controls an investee if the investor has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 was issued as part of the IASB's broader project on interests in all types of entities. This project also resulted in the issuance of the next four standards described below. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 10 did not have an impact on the Company's results of operations, financial position and disclosures.

Joint Arrangements

The IASB issued a new standard, IFRS 11, "Joint Arrangements" ("IFRS 11"), which establishes the principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31, "Interests in Joint Ventures" and SIC Interpretation 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". The standard defines a joint arrangement as an arrangement where two or more parties have joint control, with joint control being defined as the contractually agreed sharing of control where decisions about relevant activities require unanimous consent of the parties sharing control. The standard classifies joint arrangements as either joint operations or joint investments and the classification determines the accounting treatment. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 11 did not have an impact on the Company's results of operations, financial position and disclosures.

Disclosure of Interests in Other Entities

The IASB issued a new standard, IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"), which integrates and provides consistent disclosure requirements for all interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IFRS 12 did not have an impact on the Company's results of operations, financial position and disclosures.

Separate Financial Statements

The IASB issued a revised standard, IAS 27, "Separate Financial Statements" ("IAS 27"), which contains the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate (non-consolidated) financial statements. IAS 27 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IAS 27 did not have an impact on the Company's results of operations, financial position and disclosures.

Investments in Associates and Joint Ventures

The IASB issued a revised standard, IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28"), which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of IAS 28 did not have an impact on the Company's results of operations, financial position and disclosures.

Presentation of Financial Statements - Other Comprehensive Income

The IASB issued an amendment to IAS 1, "Presentation of Financial Statements" (the "IAS 1 amendment"), to improve consistency and clarity of the presentation of items of other comprehensive income. A requirement has been added to present items in other comprehensive income grouped on the basis of whether they will or will not be subsequently reclassified to earnings in order to more clearly show the effects the items of other comprehensive income may have on future earnings. The IAS 1 amendment is effective for annual periods beginning on or after July 1, 2012 and must be applied retrospectively. As a result of the adoption of the IAS 1 amendment, the Company has modified its presentation of other comprehensive income in the accompanying unaudited condensed consolidated financial statements of the Company.

Post-Employment Benefits

The IASB issued amendments to IAS 19, "Employee Benefits" ("IAS 19 (Amended 2011)"), which eliminates the option to defer the recognition of actuarial gains and losses through the "corridor" approach, replaces the expected return on plan assets calculation with a discount rate methodology in calculating pension expense for defined benefit plans, revises the presentation of changes in assets and liabilities arising from defined benefit plans and enhances the disclosures for defined benefit plans. IAS 19 (Amended 2011) is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively.

As a result of adopting IAS 19 (Amended 2011), primarily the replacement of the expected return on plan assets with a discount rate methodology in calculating pension expense, the following are the impacts on the Company's net earnings and comprehensive income for the 16 and 40 weeks ended October 6, 2012 and the 52 weeks ended December 29, 2012, and its financial position as at December 29, 2012, October 6, 2012 and January 1, 2012:

Net earnings and total comprehensive income impacts ($000s, except per share data)		**16 Weeks Ended October 6, 2012**		**40 Weeks Ended October 6, 2012**		**52 Weeks Ended December 29, 2012**
Increase in operating and administrative expenses	$	(779)	$	(1,949)	$	(2,684)
Decrease in income tax expense		203		509		701
Decrease in net earnings		(576)		(1,440)		(1,983)
Decrease in other comprehensive loss		-		-		2,419
Tax impact of decrease in other comprehensive loss		-		-		(640)
Decrease in total comprehensive income	$	(576)	$	(1,440)	$	(204)
Decrease in basic and diluted net earnings per common share	$	nil	$	(0.01)	$	(0.01)
Basic and diluted net earnings per common share, as restated	$	0.81	$	2.06	$	2.91

Balance sheet impacts ($000s)	December 29, 2012	October 6, 2012	January 1, 2012
Decrease in other assets	$ 1,947	$ -	$ -
Increase in other long-term liabilities	4,597	8,228	6,279
Decrease in deferred tax liabilities	1,667	2,115	1,606
Decrease in retained earnings	6,656	6,113	4,673
Decrease in accumulated other comprehensive loss	1,779	-	-

Certain additional information with respect to the net defined benefit liability and significant actuarial assumptions associated with the Company's pension and other post-retirement benefit plans, as restated for the impact of IAS 19 (Amended 2011), for the financial year ended December 29, 2012 is as follows:

As at and for the 52 weeks ended December 29, 2012 ($000s)

	Registered Pension Plans	Non-registered Pension Plans	Other Post-employment Benefit Plans	Total
Fair value of plan assets				
Fair value of plan assets, beginning of financial year	$ 72,276	$ 30,061	$ -	$ 102,337
Interest income	3,192	1,237	-	4,429
Actuarial gains (losses)	1,653	(149)	-	1,504
Company contributions	7,978	6,260	610	14,848
Plan participants' contributions	1,356	-	-	1,356
Benefits paid	(3,088)	(1,959)	(610)	(5,657)
Administrative costs	(152)	-	-	(152)
Fair value of plan assets, end of financial year	$ 83,215	$ 35,450	$ -	$ 118,665
Present value of the defined benefit obligation				
Defined benefit obligation, beginning of financial year	$ 103,704	$ 36,636	$ 6,380	$ 146,720
Current service cost	7,301	1,511	341	9,153
Interest cost	4,443	1,509	267	6,219
Plan participants' contributions	1,356	-	-	1,356
Actuarial losses due to financial assumption changes	5,448	2,541	220	8,209
Actuarial experience gains	(1,250)	(450)	-	(1,700)
Benefits paid	(3,088)	(1,959)	(610)	(5,657)
Termination benefits	1,520	260	-	1,780
Present value of the defined benefit obligations, end of financial year	$ 119,434	$ 40,048	$ 6,598	$ 166,080
Net defined benefit liability	$ 36,219	$ 4,598	$ 6,598	$ 47,415

The net defined benefit liability is presented in other long-term liabilities in the accompanying unaudited condensed consolidated financial statements of the Company. Interest income on plan assets is a component of employee benefits expense and is presented in operating and administrative expenses.

The significant actuarial assumptions adopted are as follows:

			2012
	Registered Pension Plans	**Non-registered Pension Plans**	**Other Post-employment Benefit Plans**
Defined benefit obligations, end of financial year			
Discount rates	4.00%	3.75%	3.85%
Rate of compensation increase	4.00%	4.00%	4.00%
Net benefit expense for the financial year			
Discount rates	4.25%	4.25%	4.15%
Rate of compensation increase	4.00%	4.00%	4.00%

Financial Instruments - Disclosures

The IASB issued an amendment to IFRS 7, "Financial Instruments: Disclosures" (the "IFRS 7 amendment"), which clarifies the requirements for offsetting financial instruments and requires new disclosures on the effect of offsetting arrangements on an entity's financial position. The IFRS 7 amendment is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of the IFRS 7 amendment did not have an impact on the Company's consolidated results of operations and financial position. The Company is assessing the impact of the adoption of the IFRS 7 amendment on its annual disclosures.

Future Accounting Standards

Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 and must be applied retrospectively. The Company is assessing the impact of IFRS 9 on its results of operations, financial position and disclosures.

Financial Instruments - Asset and Liability Offsetting

The IASB has issued an amendment to IAS 32, "Financial Instruments: Presentation" ("IAS 32"), which provides further guidance on the requirements for offsetting financial instruments. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The Company is assessing the impact of the amendments to IAS 32 on its results of operations, financial position and disclosures.

SELECTED QUARTERLY INFORMATION

Reporting Cycle

The annual reporting cycle of the Company is divided into four quarters of 12 weeks each, except for the third quarter which is 16 weeks in duration. The fiscal year of the Company consists of a 52 or 53 week period ending on the Saturday closest to December 31. When a fiscal year consists of 53 weeks, the fourth quarter is 13 weeks in duration.

Summary of Quarterly Results

The following table provides a summary of certain selected consolidated financial information for the Company for each of the eight most recently completed fiscal quarters.

	Third Quarter		**Second Quarter**		**First Quarter**		**Fourth Quarter**	
($000s, except per share data – unaudited)	**2013** (16 Weeks)	**2012** (16 Weeks)	**2013** (12 Weeks)	**2012** (12 Weeks)	**2013** (12 Weeks)	**2012** (12 Weeks)	**2012** (12 Weeks)	**2011**[1] (12 Weeks)
Sales	$ 3,286,917	$ 3,209,142	$ 2,538,440	$ 2,456,694	$ 2,485,522	$ 2,394,441	$ 2,721,571	$ 2,606,896
Net earnings	$ 165,834	$ 167,697	$ 146,948	$ 145,279	$ 119,453	$ 118,800	$ 174,722	$ 176,019
Per common share								
- Basic net earnings	$ 0.83	$ 0.81	$ 0.73	$ 0.69	$ 0.59	$ 0.56	$ 0.85	$ 0.82
- Diluted net earnings	$ 0.83	$ 0.81	$ 0.73	$ 0.69	$ 0.59	$ 0.56	$ 0.85	$ 0.82

[1] The selected net earnings information that is presented for quarterly periods in fiscal 2011 does not reflect the impact of the adoption of IAS 19 (Amended 2011).

The Company experienced growth in sales and net earnings per common share in each of the four most recent quarters compared to the same quarters of the prior year.

Sales increased in the fourth quarter of 2012 compared to the same quarter of 2011, driven by strong volume growth in pharmacy and continued sales and market share gains in the front of the store. Strong growth in the number of prescriptions filled at retail, combined with sales gains in the Company's long-term care and specialty pharmacy business units, was partially offset by a further reduction in average prescription value. Pharmacy volume growth was particularly strong in Ontario, driven by the successful implementation and acceptance of the program to waive the two dollar co-pay on eligible prescriptions for seniors, and in Western Canada where the Company completed a number of acquisitions in the second half of the year. Operating income was $250 million in the fourth quarter of 2012 compared to $256 million in the same quarter of 2011, as strong sales growth and a continued focus on cost reduction, productivity and efficiency initiatives in comparable stores was offset by further downward pressure on pharmacy margins and higher operating expenses related to the Company's network growth and expansion initiatives, along with increased Associate earnings. Other factors that positively impacted net earnings for the fourth quarter of 2012 were lower finance expenses and a reduction in the Company's effective income tax rate. In addition to the earnings factors noted above, the cumulative impact of the Company's share repurchase program had a positive impact on growth in net earnings per share during the fourth quarter of 2012, as there were 4.2% fewer diluted shares outstanding (on a weighted average basis) compared to the fourth quarter of 2011.

Sales increased in the first quarter of 2013 compared to the same quarter in 2012, driven by strong volume growth in pharmacy and continued sales and market share gains in the front of the store. Strong growth in the number of prescriptions filled at retail, combined with sales gains in the Company's complementary health care businesses, was partially offset by a further reduction in average prescription value. Pharmacy volume growth was particularly strong in Ontario, driven in part by the successful implementation and acceptance of a program to waive the two

dollar co-pay on eligible prescriptions for seniors, and in Western Canada where the Company completed a number of acquisitions in the second half of 2012. Year-over-year, gross profit dollars increased 4.2% during the first quarter of 2013, as strong sales growth, particularly in the front of the store, combined with a continued focus on promotional effectiveness and margin enhancement initiatives, served to offset further downward pressure on pharmacy sales and margins. Operating income of $175 million in the first quarter of 2013 was essentially flat on a year-over-year basis, as the benefits of cost reduction, productivity and efficiency initiatives in comparable stores were offset by higher operating expenses related to the Company's network growth and expansion initiatives. In addition to the earnings factors noted above, the cumulative impact of the Company's share repurchase program had a positive impact on growth in net earnings per share during the first quarter of 2013, as there were 3.8% fewer diluted shares outstanding (on a weighted average basis) compared to the first quarter of 2012.

Sales increased in the second quarter of 2013 compared to the same quarter in 2012, driven by strong results in the front of the store, where the Company experienced sales gains in all regions of the country, and continued strength in prescription count growth. Strong growth in the number of prescriptions filled at retail, combined with sales gains in the Company's MediSystem Technologies business, were partially offset by a further reduction in average prescription value. Consistent with recent quarterly trends, pharmacy volume growth was particularly strong in Ontario and Alberta. Year-over-year, gross profit dollars increased 1.9% during the second quarter of 2013, as the benefits from strong sales and prescription count growth were partially offset by downward pressure on margins in the dispensary, largely due to the implementation of additional drug system reform measures, and in the front of the store where the competitive environment remains very promotional. This increase in gross profit dollars was further offset by higher operating and administrative expenses, inclusive of depreciation and amortization expense, which can be largely attributed to higher operating expenses at store level, primarily occupancy, wages and benefits related to the Company's network growth and expansion initiatives, including acquisitions. Operating and administrative expenses for the second quarter of 2012 included a charge of $5 million (pre-tax) from the closure of two Murale™ stores. In addition to the earnings factors noted above, the cumulative impact of the Company's share repurchase program had a positive impact on growth in net earnings per share during the second quarter of 2013, as there were 3.8% fewer diluted shares outstanding (on a weighted average basis) compared to the second quarter of 2012.

Sales increased in the third quarter of 2013 compared to the same quarter of 2012, driven by continued strength in prescription count growth and solid results in the front of the store, where the average basket size increased on steady customer traffic. The benefits from strong sales and prescription count growth were partially offset by downward pressure on margins in the dispensary, largely due to the implementation of on-going drug system reform initiatives in all provincial jurisdictions, and in the front of the store, where competitive activity intensified, resulting in a year-over-year increase in gross profit dollars of 2.2%. However, this increase was more than offset by higher operating and administrative expenses, including depreciation and amortization expense, which increased 3.4% when compared to the prior year period's amount, driven in part by higher store-level expenses, primarily occupancy, wages and benefits, and by increased expenses at MediSystem Technologies Inc. which is commensurate with sales growth in the Company's long-term care business. Operating and administrative expenses in the third quarter of 2013 are inclusive of transactions-related costs of $14 million (pre-tax) associated with the pending acquisition of the Company by Loblaw. Operating and administrative expenses in the third quarter of 2012 included a restructuring charge of $13 million (pre-tax) stemming primarily from the rationalization of the Company's central office functions. Other factors that positively impacted net earnings for the third quarter of 2013 were lower finance expenses and a reduction in the Company's effective income tax rate. Additionally, the cumulative impact of the Company's share repurchase program had a positive impact on growth in net earnings per share during the third quarter of 2013, as there were 3.4% fewer diluted shares outstanding (on a weighted average basis) compared to the same quarter of 2012.

The Company's core prescription drug operations are not typically subject to seasonal fluctuations. The Company's front store operations include seasonal promotions which may have an impact on comparative quarterly results, particularly when a season, notably Easter, does not fall in the same quarter each year. Also, as the Company continues to expand its front store product and service offerings, including seasonal promotions, its results of operations may become subject to more seasonal fluctuations.

RISKS AND RISK MANAGEMENT

The Company is exposed to a number of risks in the normal course of its business that have the potential to affect its operating and financial performance.

Industry and Regulatory Developments

The Company is reliant on prescription drug sales for a significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, or non-compliance with these laws and regulations, could have a material adverse impact on the Company's business, sales and profitability.

Federal and provincial laws and regulations that establish the public drug plans typically regulate prescription drug coverage, patient eligibility, pharmacy reimbursement, drug product eligibility, drug pricing and may also regulate manufacturer allowance funding that may be provided to or received by pharmacy or pharmacy suppliers. With respect to pharmacy reimbursement, such laws and regulations typically regulate the allowable drug cost of a prescription drug product, the permitted mark-up on a prescription drug product and the professional or dispensing fees that may be charged on prescription drug sales to patients eligible under the public drug plan. With respect to drug product eligibility, such laws and regulations typically regulate the requirements for listing the manufacturer's products as a benefit or partial benefit under the applicable governmental drug plan, drug pricing and, in the case of generic prescription drug products, the requirements for designating the product as interchangeable with a branded prescription drug product. In addition, other federal, provincial, territorial and local laws and regulations govern the approval, packaging, labeling, sale, marketing, advertising, handling, storage, distribution, dispensing and disposal of prescription drugs.

Sales of prescription drugs, pharmacy reimbursement and drug prices may be affected by changes to the health care industry, including legislative or other changes that impact patient eligibility, drug product eligibility, the allowable cost of a prescription drug product, the mark-up permitted on a prescription drug product, the amount of professional or dispensing fees paid by third-party payers or the provision or receipt of manufacturer allowances by pharmacy and pharmacy suppliers.

The majority of prescription drug sales are reimbursed or paid by third-party payers, such as governments, insurers or corporate employers. These third-party payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products. Other measures that have been implemented by certain government payers include restricting the number of interchangeable prescription drug products which are eligible for reimbursement under provincial drug plans. Additionally, the Council of the Federation, an institution created by the provincial Premiers in 2003 to collaborate on intergovernmental relations, continue their work regarding cost reduction initiatives for pharmaceutical products and services. Since the date of the Company's Interim Management's Discussion and Analysis for the 12 and 24 week periods ended June 15, 2013, no material legislative changes or other regulatory initiatives intended to lower overall costs incurred by public drug plans have been announced.

Legislation in certain provincial jurisdictions, including Québec, establish listing requirements that ensure that the selling price for a prescription drug product will not be higher than any selling price granted by the manufacturer for the same prescription drug product under other provincial drug insurance programs. In some provinces, elements of the laws and regulations that impact pharmacy reimbursement and manufacturer allowances for sales to the public drug plans are extended by legislation to sales in the private sector. Also, private third-party payers (such as corporate employers and their insurers) have benefited or may look to benefit from any measures implemented by government payers to reduce prescription drug costs for public plans by extending these measures to prescription drug plans they own or manage. Accordingly, changes to pharmacy reimbursement and manufacturer allowances for a public drug plan could also impact pharmacy reimbursement and manufacturer allowances for private sector sales. In addition, private third-party payers could reduce reimbursement for prescription drugs provided to their

members or could elect to reimburse members only for products included on closed formularies or available from preferred providers.

Ongoing changes impacting pharmacy reimbursement programs, prescription drug pricing and manufacturer allowance funding, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales. These changes may have a material adverse impact on the Company's business, sales and profitability. In addition, the Company could incur significant costs in the course of complying with any changes in the regulatory regime affecting prescription drugs. Non-compliance with any such existing or proposed laws or regulations, particularly those that provide for the licensing and conduct of wholesalers, the licensing and conduct of pharmacists, the regulation and ownership of pharmacies, the advertising of pharmacies and prescription services, the provision of information concerning prescription drug products, the pricing of prescription drugs and restrictions on manufacturer allowance funding, could result in civil or regulatory proceedings, fines, penalties, injunctions, recalls or seizures, any of which may impact the Company's business, sales or profitability.

RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Company is exposed to a number of risks associated with financial instruments that have the potential to affect its operating and financial performance. The Company's primary financial instrument risk exposures are interest rate risk and liquidity risk. The Company's exposures to foreign currency risk, credit risk and other price risk are not considered to be material. The Company may use derivative financial instruments to manage certain of these risks but it does not use derivative financial instruments for trading or speculative purposes.

Exposure to Interest Rate Fluctuations

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.

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. Currently, the Company is not party to any interest rate derivative agreements and the Company did not use any interest rate derivative agreements to manage its exposure to interest rate fluctuations in any part of 2013 or 2012.

Furthermore, the Company may be exposed to losses should any counterparty to its derivative agreements fail to fulfill its obligations. The Company seeks to minimize counterparty risk by transacting with counterparties that are large, well capitalized financial institutions. There was no such exposure as at October 5, 2013, as the Company was not party to any interest rate derivative agreements as at that date.

As at October 5, 2013, the Company had $522 million (2012 - $525 million) of unhedged floating rate debt. During the 16 and 40 week periods ended October 5, 2013, the Company's average outstanding unhedged floating rate debt was $691 million and $661 million (2012 - $639 million and $608 million), respectively. Had interest rates been higher or lower by 50 basis points during the 16 and 40 week periods ended October 5, 2013, net earnings would have decreased or increased, respectively, by approximately $0.8 million and $1.9 million (2012 - $0.7 million and $1.7 million), respectively, as a result of the Company's exposure to interest rate fluctuations on its unhedged floating rate debt.

Foreign Currency Exchange Risk

The Company conducts the vast majority of its business in Canadian dollars. The Company's foreign currency exchange risk principally relates to purchases made in U.S. dollars and this risk is tied to fluctuations in the exchange rate of the Canadian dollar vis-à-vis the U.S. dollar. The Company monitors its foreign currency purchases in order to monitor and manage its foreign currency exchange risk. The Company does not consider its exposure to foreign currency exchange rate risk to be material.

Credit Risk

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.

Other Price Risk

The Company may use cash-settled equity forward agreements to limit its exposure to future changes in the market price of its common shares by virtue of its obligations under its restricted share unit plan ("RSU Plan"). The income or expense arising from the use of these instruments is included in operating and administrative expenses.

Based on the market value of the equity forward agreement in place at October 5, 2013, the Company recognized an asset of $2.3 million. Based on market values of the equity forward agreements in place at October 6, 2012, the

Company recognized a liability of $0.8 million, of which $0.7 million was presented in accounts payable and accrued liabilities and $0.1 million was presented in other long-term liabilities. During the 16 and 40 week periods ended October 5, 2013 and October 6, 2012, the Company assessed that the percentages of the equity forward agreements in place related to unearned units under the 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. Market values were determined based on information received from the Company's counterparty to these equity forward agreements.

Capital Management and Liquidity Risk

The Company's primary objectives when managing its 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, renovations to existing stores, 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), financing leases 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 ratio and net debt to total capitalization ratio, and ensures its ability to service its debt and meet other fixed obligations by tracking its interest and other fixed charges coverage ratios. (See discussion under "Capitalization and Financial Position" in this Management's Discussion and Analysis.)

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 credit 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.

For a complete description of the Company's sources of liquidity, see the discussions under "Sources of Liquidity" and "Future Liquidity" under "Liquidity and Capital Resources" in this Management's Discussion and Analysis.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be designed effectively can provide only reasonable assurance with respect to financial reporting and financial statement preparation.

There were no changes in internal controls over financial reporting that occurred during the Company's most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NON-IFRS FINANCIAL MEASURES

The Company reports its financial results in accordance with IFRS. However, the foregoing contains references to non-IFRS financial measures, such as adjusted operating and administrative expenses, adjusted depreciation and amortization expense, adjusted operating income, operating margin, adjusted operating margin, EBITDA (earnings before finance expenses, income taxes and depreciation and amortization), adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, adjusted net earnings, adjusted net earnings per share and cash interest expense. These non-IFRS financial measures do not have standardized meanings prescribed by IFRS and, therefore, may not be comparable to similarly titled measures presented by other reporting issuers.

These non-IFRS financial measures have been included in this Management's Discussion and Analysis as they are measures which management uses to assist in evaluating the Company's operating performance against its expectations and against other companies in the retail drug store industry. Management believes that non-IFRS financial measures assist in identifying underlying operating trends.

These non-IFRS financial measures, particularly EBITDA, adjusted EBITDA, EBITDA margin and adjusted EBITDA margin, are also common measures used by investors, financial analysts and rating agencies. These groups may use EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin and other non-IFRS financial measures to value the Company and assess the Company's ability to service its debt.