

Shoppers Drug Mart Corporation

Condensed Consolidated Statements of Earnings

(unaudited)

(in thousands of Canadian dollars, except per share amounts)

	Note	12 weeks ended		52 weeks ended	
		December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Sales		\$ 2,721,571	\$ 2,606,896	\$ 10,781,848	\$ 10,458,652
Cost of goods sold	5	(1,662,025)	(1,571,837)	(6,609,229)	(6,416,208)
Gross profit		1,059,546	1,035,059	4,172,619	4,042,444
Operating and administrative expenses	6,7	(809,551)	(779,070)	(3,291,698)	(3,131,539)
Operating income		249,995	255,989	880,921	910,905
Finance expenses		(13,310)	(14,867)	(57,595)	(64,038)
Earnings before income taxes		236,685	241,122	823,326	846,867
Income taxes					
Current		(55,486)	(34,274)	(235,791)	(208,696)
Deferred		(5,934)	(30,829)	20,946	(24,237)
		(61,420)	(65,103)	(214,845)	(232,933)
Net earnings		\$ 175,265	\$ 176,019	\$ 608,481	\$ 613,934
Net earnings per common share					
Basic	10	\$ 0.85	\$ 0.82	\$ 2.92	\$ 2.84
Diluted	10	\$ 0.85	\$ 0.82	\$ 2.92	\$ 2.84
Weighted average common shares outstanding (millions):					
Basic	10	205.4	214.3	208.4	216.4
Diluted	10	205.4	214.3	208.5	216.5
Actual common shares outstanding (millions)		204.5	212.5	204.5	212.5

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

Shoppers Drug Mart Corporation

Condensed Consolidated Statements of Comprehensive Income (unaudited) (in thousands of Canadian dollars)

	12 weeks ended		52 weeks ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Net earnings	\$ 175,265	\$ 176,019	\$ 608,481	\$ 613,934
Other comprehensive income (loss), net of tax				
Effective portion of changes in fair value of hedges on equity forward derivatives (net of tax of \$10 and \$11 (2011: \$5 and \$12))	33	15	35	(39)
Net change in fair value of hedges on equity forward derivatives transferred to earnings (net of tax of \$6 and \$38 (2011: \$21 and \$163))	16	52	102	411
Retirement benefit obligations actuarial losses (net of tax of \$2,310 and \$2,310 (2011: \$7,433 and \$7,433))	(5,115)	(21,943)	(5,115)	(21,943)
Other comprehensive loss, net of tax	(5,066)	(21,876)	(4,978)	(21,571)
Total comprehensive income	\$ 170,199	\$ 154,143	\$ 603,503	\$ 592,363

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

Shoppers Drug Mart Corporation

Condensed Consolidated Balance Sheets

(unaudited)

(in thousands of Canadian dollars)

	Note	December 29, 2012	December 31, 2011
Current assets			
Cash		\$ 104,529	\$ 118,566
Accounts receivable		469,683	493,338
Inventory		2,148,484	2,042,302
Prepaid expenses and deposits		42,301	41,441
Total current assets		2,764,997	2,695,647
Non-current assets			
Property and equipment	7	1,717,993	1,767,543
Investment property		16,379	16,372
Goodwill		2,572,707	2,499,722
Intangible assets		339,972	281,737
Other assets		22,824	18,214
Deferred tax assets		38,849	21,075
Total non-current assets		4,708,724	4,604,663
Total assets		\$ 7,473,721	\$ 7,300,310
Current liabilities			
Bank indebtedness		\$ 170,927	\$ 172,262
Commercial paper	8	249,977	—
Accounts payable and accrued liabilities		1,206,748	1,109,444
Income taxes payable		17,994	26,538
Dividends payable	9	54,180	53,119
Current portion of long-term debt	8	449,798	249,971
Provisions		10,926	12,024
Associate interest		174,367	152,880
Total current liabilities		2,334,917	1,776,238
Long-term liabilities			
Long-term debt	8	247,009	695,675
Other long-term liabilities		517,323	520,188
Provisions		4,273	1,701
Deferred tax liabilities		46,872	38,678
Total long-term liabilities		815,477	1,256,242
Total liabilities		3,150,394	3,032,480
Shareholders' equity			
Share capital	9	1,431,315	1,486,455
Treasury shares	9	—	(4,735)
Contributed surplus	11	10,856	10,246
Accumulated other comprehensive loss		(35,192)	(30,214)
Retained earnings		2,916,348	2,806,078
Total shareholders' equity		4,323,327	4,267,830
Total liabilities and shareholders' equity		\$ 7,473,721	\$ 7,300,310

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

Shoppers Drug Mart Corporation

Condensed Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

(in thousands of Canadian dollars)

	Note	Share Capital	Treasury Shares	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance as at December 31, 2011		\$ 1,486,455	\$ (4,735)	\$ 10,246	\$ (30,214)	\$ 2,806,078	\$ 4,267,830
Total comprehensive income		—	—	—	(4,978)	608,481	603,503
Dividends	9	—	—	—	—	(219,793)	(219,793)
Share repurchases	9, 10	(55,635)	—	—	—	(274,493)	(330,128)
Treasury shares cancelled	9	(810)	4,735	—	—	(3,925)	—
Share-based payments	11	—	—	789	—	—	789
Share options exercised	11	1,295	—	(179)	—	—	1,116
Repayment of share-purchase loans		10	—	—	—	—	10
Balance as at December 29, 2012		\$ 1,431,315	\$ —	\$ 10,856	\$ (35,192)	\$ 2,916,348	\$ 4,323,327
Balance as at January 1, 2011		\$ 1,520,558	\$ —	\$ 11,702	\$ (8,643)	\$ 2,579,018	\$ 4,102,635
Total comprehensive income		—	—	—	(21,571)	613,934	592,363
Dividends	9	—	—	—	—	(215,671)	(215,671)
Share repurchases	9, 10	(35,576)	(4,735)	—	—	(171,203)	(211,514)
Share-based payments	11	—	—	(1,210)	—	—	(1,210)
Share options exercised	11	1,466	—	(246)	—	—	1,220
Repayment of share-purchase loans		7	—	—	—	—	7
Balance as at December 31, 2011		\$ 1,486,455	\$ (4,735)	\$ 10,246	\$ (30,214)	\$ 2,806,078	\$ 4,267,830

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

Shoppers Drug Mart Corporation

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in thousands of Canadian dollars)

		12 weeks ended		52 weeks ended	
	Note	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Cash flows from operating activities					
Net earnings		\$ 175,265	\$ 176,019	\$ 608,481	\$ 613,934
Adjustments for:					
Depreciation and amortization		75,582	70,772	318,341	296,464
Finance expenses		13,310	14,867	57,595	64,038
Loss (gain) on sale or disposal of property and equipment		3,311	851	(5,746)	2,015
Share-based payment transactions	11	174	184	789	(1,210)
Recognition and reversal of provisions, net		3,189	(262)	17,419	9,218
Other long-term liabilities		(3,230)	(6,484)	(1,298)	296
Income tax expense		61,420	65,103	214,845	232,933
		329,021	321,050	1,210,426	1,217,688
Net change in non-cash working capital balances	12	120,157	97,777	15,458	32,166
Provisions used		(4,959)	(1,741)	(15,945)	(9,907)
Interest paid		(15,893)	(14,903)	(62,712)	(63,853)
Income tax paid		(60,634)	(32,824)	(230,411)	(202,256)
Net cash from operating activities		367,692	369,359	916,816	973,838
Cash flows from investing activities					
Proceeds from disposition of property and equipment		15	15,941	50,724	55,459
Business acquisitions	4	(7,202)	(3,839)	(129,454)	(10,496)
Deposits		(5,390)	980	(8,217)	105
Acquisition and development of property and equipment		(79,891)	(99,886)	(254,259)	(341,868)
Acquisition and development of intangible assets		(14,839)	(17,193)	(54,385)	(53,836)
Other assets		(695)	659	517	1,464
Net cash used in investing activities		(108,002)	(103,338)	(395,074)	(349,172)
Cash flows from financing activities					
Repurchase of own shares	9	(70,728)	(114,609)	(334,863)	(206,779)
Proceeds from exercise of share options		(2)	256	1,116	1,220
Repayment of share-purchase loans		—	—	10	7
Bank indebtedness, net		(84,080)	(68,681)	(1,372)	(36,714)
Issuance (repayment) of commercial paper, net	8	(13,000)	—	250,000	(128,000)
Repayment of long-term debt	8	—	—	(250,000)	—
Revolving term debt, net	8	—	152	(152)	152
Payment of transaction costs for debt refinancing		(380)	(575)	(380)	(575)
Repayment of financing lease obligations		(687)	(618)	(2,893)	(2,173)
Associate interest		15,325	13,979	21,487	13,887
Dividends paid	9	(54,679)	(53,815)	(218,732)	(211,479)
Net cash used in financing activities		(208,231)	(223,911)	(535,779)	(570,454)
Net increase (decrease) in cash		51,459	42,110	(14,037)	54,212
Cash, beginning of period		53,070	76,456	118,566	64,354
Cash, end of period		\$ 104,529	\$ 118,566	\$ 104,529	\$ 118,566

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

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

1. GENERAL INFORMATION

Shoppers Drug Mart Corporation (the “Company”) is a public company incorporated and domiciled in Canada, whose shares are publicly traded on the Toronto Stock Exchange. The Company’s registered address is 243 Consumers Road, Toronto, Ontario, M2J 4W8, Canada.

The Company is a licensor of 1,240 Shoppers Drug Mart[®]/Pharmaprix[®] full-service retail drug stores across Canada. The Shoppers Drug Mart[®]/Pharmaprix[®] stores are licensed to corporations owned by pharmacists (“Associates”). The Company also licenses or owns 55 Shoppers Simply Pharmacy[®]/Pharmaprix Simplement Santé[®] medical clinic pharmacies and six Murale[™] beauty stores. In addition, the Company owns and operates 62 Shoppers Home Health Care[®] stores. In addition to its 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 the Shoppers Drug Mart[®]/Pharmaprix[®] full-service retail drug stores 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 Simply Pharmacy[®]/Pharmaprix Simplement Santé[®], MediSystem Technologies Inc., and Shoppers Drug Mart Specialty Health Network Inc. is included with prescription sales of the Company’s retail drug stores. The revenue generated by Shoppers Home Health Care[®] and Murale[™] is included with the front store sales of the Company’s retail drug stores.

2. BASIS OF PREPARATION

Statement of Compliance

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”). They have been prepared using the accounting policies that were described in Note 3 to the Company’s annual consolidated financial statements as at and for the 52 weeks ended December 31, 2011, except as described in Note 3(a) to these condensed consolidated financial statements.

These condensed consolidated financial statements should be read in conjunction with the Company’s 2011 annual financial statements.

These condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 7, 2013.

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

3. SIGNIFICANT ACCOUNTING POLICIES

(a) New Accounting Standards

(i) Deferred Taxes – Recovery of Underlying Assets

The IASB has issued an amendment to IAS 12, “Income Taxes” (“IAS 12 amendment”), which introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. The IAS 12 amendment is effective for annual periods beginning on or after January 1, 2012. The IAS 12 amendment did not have an impact on the Company’s results of operations, financial position or disclosures.

(b) New Standards and Interpretations not yet Adopted

A number of new standards, amendments to standards, and interpretations have been issued but are not yet effective for the financial year ending December 29, 2012 and, accordingly, have not been applied in preparing these condensed consolidated financial statements:

(i) Financial Instruments – Disclosures

The IASB has issued an amendment to IFRS 7, “Financial Instruments - Disclosures” (“IFRS 7”), requiring incremental disclosures regarding transfers of financial assets. This amendment to IFRS 7 is effective for annual periods beginning on or after July 1, 2011. The Company will apply the amendment to its 2012 annual financial statement disclosures and implementation will not have a significant impact on the Company’s disclosures.

(ii) 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.

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Fair Value Measurement

The IASB has 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 must be applied retrospectively. The Company is assessing the impact of IFRS 13 on its results of operations, financial position and disclosures.

(iv) Consolidated Financial Statements

The IASB has 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 additional standards as described in (v) to (viii) below. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IFRS 10 on its results of operations, financial position and disclosures.

(v) Joint Arrangements

The IASB has 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 Company is assessing the impact of IFRS 11 on its results of operations, financial position and disclosures.

(vi) Disclosure of Interests in Other Entities

The IASB has 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 Company is assessing the impact of IFRS 12 on its disclosures.

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(vii) Separate Financial Statements

The IASB has 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. IAS 27 will not have an impact on the Company’s consolidated results of operations, financial position and disclosures.

(viii) Investments in Associates and Joint Ventures

The IASB has 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 Company is assessing the impact of IAS 28 on its results of operations, financial position and disclosures.

(ix) Presentation of Financial Statements – Other Comprehensive Income

The IASB has 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 may 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. The Company is assessing the impact of the IAS 1 amendment on its presentation of other comprehensive income.

(x) Post-Employment Benefits

The IASB has issued amendments to IAS 19, “Employee Benefits” (“IAS 19”), which eliminates the option to defer the recognition of actuarial gains and losses through the “corridor” approach, revises the presentation of changes in assets and liabilities arising from defined benefit plans and enhances the disclosures for defined benefit plans. IAS 19 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IAS 19 on its results of operations, financial position and disclosures.

(xi) Financial Instruments - Asset and Liability Offsetting

The IASB has issued amendments to IFRS 7 and IAS 32, “Financial Instruments: Presentation” (“IAS 32”), which clarify the requirements for offsetting financial instruments and require new disclosures on the effect of offsetting arrangements on an entity’s financial position. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. 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 IFRS 7 and IAS 32 on its results of operations, financial position and disclosures.

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

4. BUSINESS ACQUISITIONS

Paragon Pharmacies Limited

On August 1, 2012, the Company acquired substantially all of the assets of Paragon Pharmacies Limited ("Paragon") for a cash purchase price of \$72,059. The acquisition included 19 retail pharmacies and three central fill pharmacies in British Columbia, Alberta, and Manitoba.

The acquisition of Paragon will increase the Company's retail presence in western Canada and provide a platform for the Company's MediSystem Technologies Inc. ("MediSystem") business to enter the British Columbia and Manitoba markets. In addition, this acquisition is consistent with the Company's stated growth objectives in retail pharmacy and long-term care.

The following table summarizes the consideration paid for Paragon, and the amounts recognized for the assets acquired and liabilities assumed at the acquisition date.

Fair value of net assets acquired as at acquisition date		
Cash	\$	43
Accounts receivable (gross amount of \$4,751, net of allowance of \$430)		4,321
Inventory		7,906
Prepaid expenses		611
Property and equipment		4,929
Prescription files		20,000
Customer relationships		8,000
Accounts payable and accrued liabilities		(1,245)
Net assets acquired		44,565
Goodwill, net of deferred taxes		27,494
Total cash purchase price		72,059
Cash acquired		(43)
Purchase price, net of cash acquired	\$	72,016

The goodwill arising from this acquisition reflects the expected future growth potential arising from increased prescription script counts and the synergies expected following the integration of Paragon, as well as the opportunity to introduce the MediSystem business into two new provinces. The Company expects that \$20,620 of the acquired goodwill will be deductible for tax purposes.

The Company has incurred acquisition costs of \$797 relating primarily to external legal fees, consulting fees, and due diligence costs. These costs have been recognized within operating and administrative expenses in the condensed consolidated statements of earnings.

The results of operations of Paragon have been included in the condensed consolidated financial statements from August 1, 2012, the date of acquisition. For the 12 and 52 weeks ended December 29, 2012, the acquisition has added approximately \$16,800 and \$27,800 to the Company's sales since acquisition. If the acquisition had occurred on January 1, 2012, the Company estimates that for the 52 weeks ended December 29, 2012, sales would have increased by approximately \$68,800.

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

4. BUSINESS ACQUISITIONS (continued)

Other Business Acquisitions

In the normal course of business, the Company acquires the assets or shares of pharmacies. The following table summarizes the consideration paid for these acquisitions, and the amounts recognized for the assets acquired and liabilities assumed at the acquisition date.

	52 weeks ended December 29, 2012
Fair value of net assets acquired as at acquisition date	
Accounts receivable	205
Inventory	3,193
Prepaid expenses	12
Property and equipment	3,361
Prescription files	18,959
Other assets	456
Accounts payable and accrued liabilities	(610)
Net assets acquired	25,576
Goodwill, net of deferred taxes	31,862
Total purchase price	57,438

The total cost of these acquisitions during the 52 weeks ended December 29, 2012 was \$57,438 (2011: \$10,496). For the 12 weeks ended December 29, 2012, \$26,095 was funded by deposits made in previous quarters. The goodwill acquired represents the benefits the Company expects to receive from the acquisitions.

The values of assets acquired and liabilities assumed have been determined at the acquisition date using fair values.

The results of operations of the acquired pharmacies have been included in the Company's results of operations from the dates of acquisition. These acquisitions have added approximately \$14,600 to the Company's sales since acquisition. If these acquisitions had occurred on January 1, 2012, the Company estimates that sales for the full year would have increased by approximately \$54,300.

5. COST OF GOODS SOLD

During the 12 and 52 weeks ended December 29, 2012, the Company recorded \$6,235 and \$44,334 (2011: \$7,340 and \$39,943) as an expense for the write-down of inventory as a result of net realizable value being lower than cost in cost of goods sold in the condensed consolidated statements of earnings.

During the 12 and 52 weeks ended December 29, 2012 and December 31, 2011, the Company did not reverse any significant inventory write-downs recognized in previous periods.

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

6. EMPLOYEE BENEFITS EXPENSE

Employee benefits expense, recognized within operating and administrative expenses, is as follows:

	12 weeks ended		52 weeks ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Wages and salaries	\$ 360,410	\$ 341,460	\$ 1,462,583	\$ 1,391,430
Restructuring charge	—	—	11,664	—
Statutory deductions	38,898	36,185	175,274	164,528
Expenses related to pension and benefits	3,605	1,127	10,190	6,130
Share-based payment transactions	1,576	1,420	5,741	2,135
	\$ 404,489	\$ 380,192	\$ 1,665,452	\$ 1,564,223

During the 16 weeks ended October 6, 2012, the Company recorded a restructuring charge of \$12,754 arising primarily from the rationalization of the Company's central office functions, of which \$11,664 is reflected in employee benefits expense above.

7. DEPRECIATION AND AMORTIZATION EXPENSE

The components of the Company's depreciation and amortization expense, recognized within operating and administrative expenses, are as follows:

	12 weeks ended		52 weeks ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Property and equipment	\$ 61,127	\$ 58,858	\$ 263,134	\$ 249,467
Investment property	79	105	336	325
Intangible assets	14,238	11,749	54,369	46,368
Loss (gain) on disposal	\$ 3,153	693	\$ (6,431)	1,522
	\$ 78,597	\$ 71,405	\$ 311,408	\$ 297,682

These amounts include net gains and losses on the disposition of property and equipment, investment property, and intangible assets and any impairment losses recognized by the Company. During the 12 and 52 weeks ended December 29, 2012, the Company recognized a net loss of \$3,153 and a net gain of \$6,431, respectively, on the disposal of property and equipment, investment property, and intangible assets (2011: net loss of \$693 and \$1,522). During the 12 and 52 weeks ended December 29, 2012 and December 31, 2011, the Company did not recognize any impairment losses on property and equipment or intangible assets.

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

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(in thousands of Canadian dollars, except per share data)

7. DEPRECIATION AND AMORTIZATION EXPENSE (continued)

Sale-Leaseback Transactions

During the 12 and 52 weeks ended December 29, 2012, the Company sold certain real estate properties for net proceeds of \$nil and \$48,638 (2011: \$15,926 and \$54,210), respectively, and entered into leaseback agreements for the area used by the Associate-owned stores. The leases have been accounted for as operating or financing leases as appropriate. During the 12 and 52 weeks ended December 29, 2012, the Company realized gains on disposal of \$nil and \$12,475, respectively. The gains on disposal of \$12,475 were recognized immediately in net earnings and included in depreciation expense during the 52 weeks ended December 29, 2012. During the 12 and 52 weeks ended December 31, 2011, the Company realized gains on disposal of \$1,230 and \$9,935, respectively, of which \$nil and \$5,250, respectively, were deferred under financing lease treatment. Deferred gains are presented in other long-term liabilities and are amortized over lease terms of 15 to 20 years.

8. DEBT

On January 6, 2012, the Company filed with the securities regulators in each of the provinces of Canada, a final short form base shelf prospectus (the "Prospectus") for the issuance of up to \$1,000,000 of medium-term notes. Subject to the requirements of applicable law, medium term notes can be issued under the Prospectus for up to 25 months from the date of the final receipt. No incremental debt was incurred by the Company as a result of this filing.

On January 20, 2012, \$250,000 of three-year medium-term notes, were repaid in full, along with all accrued and unpaid interest owing on the final semi-annual interest payment. The repayment was financed with a combination of available cash and commercial paper issued under the Company's commercial paper program. The net debt position of the Company remained substantially unchanged as a result of this refinancing activity.

On October 26, 2012, the Company's existing \$725,000 revolving term credit facility that was to mature on December 10, 2015, was amended to extend the maturity date by one year to December 10, 2016. The credit facility is available for general corporate purposes, including backstopping the Company's commercial paper program.

On November 16, 2012, the Company amended its commercial paper program, increasing the amount available under the program from \$500,000 to \$600,000. The commercial paper program retained its rating of R-1(low) from DBRS Limited following this increase. No incremental debt was incurred by the Company as a result of this amendment.

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

9. SHARE CAPITAL

Normal Course Issuer Bid

On February 9, 2012, the Company renewed its normal course issuer bid providing for the repurchase, for cancellation, of up to 10,600,000 of its common shares, representing approximately 5.0% of the Company's then outstanding common shares. Repurchases will be effected through the facilities of the Toronto Stock Exchange (the "TSX") and may take place over a 12-month period ending no later than February 14, 2013. Repurchases will be made at market prices in accordance with the requirements of the TSX. The Company has 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. Outside of these pre-determined black-out periods, shares will be purchased at the Company's discretion, subject to applicable law. The Company's previous normal course issuer bid, which was implemented on February 10, 2011 and expired on February 14, 2012, provided for the repurchase, for cancellation, of up to 8,700,000 of its common shares, representing approximately 4.0% of the Company's then outstanding common shares.

During the 12 and 52 weeks ended December 29, 2012, the Company purchased and cancelled 1,623,500 and 7,949,400 (2011: 2,394,800 and 5,086,200) common shares, respectively, under its normal course issuer bid programs at a cost of \$67,652 and \$330,128 (2011: \$101,998 and \$206,779), respectively. The premium paid over the average book value of the shares repurchased of \$56,288 and \$274,493 (2011: \$85,247 and \$171,203), respectively, has been charged to retained earnings. During the 12 and 52 weeks ended December 31, 2011, the Company purchased an additional 115,900 shares at a cost of \$4,735. The cost of these purchases was recorded as treasury shares in Shareholders' Equity at the end of the year. During the 12 weeks ended March 24, 2012 and the 12 weeks ended December 29, 2012, the Company cancelled the 115,900 and 75,000 shares, respectively, that were recognized as treasury shares at the end of each preceding reporting period. The cancelled shares were charged to share capital and retained earnings accordingly.

Dividends

On February 7, 2013, the Board of Directors declared a dividend of 28.5 cents per common share payable April 15, 2013 to shareholders of record as of the close of business on March 28, 2013.

The following table provides a summary of the dividends declared by the Company:

Declaration Date	Record Date	Payment Date	Dividend per Common Share
February 9, 2012	March 30, 2012	April 13, 2012	0.265
April 26, 2012	June 29, 2012	July 13, 2012	0.265
July 19, 2012	September 28, 2012	October 15, 2012	0.265
November 13, 2012	December 31, 2012	January 15, 2013	0.265
February 10, 2011	March 31, 2011	April 15, 2011	0.250
April 27, 2011	June 30, 2011	July 15, 2011	0.250
July 21, 2011	September 30, 2011	October 14, 2011	0.250
November 9, 2011	December 30, 2011	January 13, 2012	0.250

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

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10. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic net earnings per common share at December 29, 2012 was based on net earnings for the 12 and 52 weeks ended December 29, 2012 of \$175,265 and \$608,481 (2011: \$176,019 and \$613,934), respectively, and a weighted average number of shares outstanding (basic) of 205,365,187 and 208,435,823 (2011: 214,299,771 and 216,420,096), respectively. The weighted average number of shares outstanding (basic) is calculated as follows:

Weighted Average Shares Outstanding (Basic)

	12 weeks ended		52 weeks ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Issued shares, beginning of the period	206,150,288	214,859,316	212,475,597	217,452,068
Effect of share options exercised	—	1,980	23,344	52,350
Effect of treasury shares cancelled	(75,000)	—	(115,900)	—
Effect of shares repurchased	(710,101)	(559,774)	(3,946,910)	(1,082,326)
Effect of share purchase loans	—	(1,751)	(308)	(1,996)
Weighted average number of shares outstanding, end of the period	205,365,187	214,299,771	208,435,823	216,420,096

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share at December 29, 2012 was based on net earnings for the 12 and 52 weeks ended December 29, 2012 of \$175,265 and \$608,481 (2011: \$176,019 and \$613,934), respectively, and a weighted average number of shares outstanding after adjusting for the effects of all dilutive potential shares of 205,389,126 and 208,461,406 (2011: 214,348,906 and 216,504,784), respectively. The weighted average number of shares outstanding (diluted) is calculated as follows:

Weighted Average Shares Outstanding (Diluted)

	12 weeks ended		52 weeks ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Weighted average number of shares outstanding (basic), end of the period	205,365,187	214,299,771	208,435,823	216,420,096
Potentially dilutive share options	23,939	49,135	25,583	84,688
Weighted average number of shares outstanding (diluted), end of the period	205,389,126	214,348,906	208,461,406	216,504,784

The average market value of the Company's shares for purposes of calculating the effect of dilutive stock options was based on quoted market prices for the period that the stock options were outstanding. Anti-dilutive stock options have been excluded.

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

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(in thousands of Canadian dollars, except per share data)

11. SHARE-BASED PAYMENTS

The Company established stock option and other share-based payment plans for certain employees and members of its Board of Directors, as described in Note 26 to the Company's 2011 annual financial statements.

During the 12 and 52 weeks ended December 29, 2012, the Company recognized the following compensation expense associated with stock options issued under the employee and director plans in operating and administrative expenses:

Net expenses (reversal) associated with:	12 weeks ended		52 weeks ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Options granted in 2006	\$ —	\$ —	\$ —	\$ (921)
Options granted in 2010	7	36	(28)	(637)
Options granted in 2011	95	148	504	348
Options granted in 2012	72	—	313	—
Total net (reversal of) expenses recognized in operating and administrative expenses	\$ 174	\$ 184	\$ 789	\$ (1,210)

Included in the amounts above for the 12 and 52 weeks ended December 29, 2012 is a reversal of compensation expense of \$nil and \$204 (2011: \$nil and \$1,715), respectively, as a result of the departure of certain management personnel.

Employee Stock Option Plan

Options issued to certain employees have an exercise price per share of no less than the fair market value on the date of the option grant. These options include awards for shares that vest based on the passage of time, performance criteria, or both.

The following is a summary of the status of the employee Share Incentive Plan ("share plan") and changes to it during the current and prior financial periods:

	December 29, 2012		52 weeks ended	
	Options on common shares	Weighted average exercise price per share	Options on common shares	Weighted average exercise price per share
Outstanding, beginning of period	380,877	\$ 40.23	803,492	\$ 39.53
Granted	134,950	40.21	253,186	41.80
Exercised	(41,491)	27.17	(109,729)	12.15
Forfeited/cancelled including repurchased	(70,891)	41.07	(566,072)	45.38
Outstanding, end of period	403,445	\$ 41.42	380,877	\$ 40.23
Options exercisable, end of period	139,679	\$ 41.27	88,917	\$ 33.47

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

11. SHARE-BASED PAYMENTS (continued)

				December 29, 2012	
	Outstanding Options			Exercisable Options	
Range of exercise prices	Number of options outstanding	Weighted average contractual life (years)	Weighted average exercise price per share	Number of exercisable options	Weighted average exercise price per share
\$25.86	2,738	0.67	\$ 25.86	2,738	\$ 25.86
\$29.30 - \$36.41	17,414	0.87	33.02	17,414	33.02
\$40.21 - \$44.09	383,293	5.17	41.90	119,527	42.83
	403,445	4.95	\$ 41.42	139,679	\$ 41.27

Options granted

In February 2012 and 2011, the Company granted awards of time-based options under the share plan to certain senior management, with one-third of such options vesting each year.

In November 2011, the Company granted an award of time-based options under the share plan to the Company's Chief Executive Officer, with one-fourth of such options vesting each year.

The following assumptions were used in the Black-Scholes option-pricing model to calculate the fair value for those options granted:

	February, 2012	November, 2011	February, 2011
Fair value per unit at grant date	5.40	5.89	6.32
Share price	\$ 40.21	\$ 42.28	\$ 40.81
Exercise price	\$ 40.21	\$ 42.28	\$ 40.81
Valuation assumptions:			
Expected life	5 years	5 years	5 years
Expected dividends	2.64%	2.37%	2.45%
Expected volatility (based on historical share price volatility)	19.79%	19.86%	19.32%
Risk-free interest rate (based on government bonds)	1.50%	1.39%	2.63%

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

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

SHOPPERS DRUG MART CORPORATION

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(in thousands of Canadian dollars, except per share data)

11. SHARE-BASED PAYMENTS (continued)

Restricted Share Unit Plan

In February 2012 and 2011, the Company made grants of restricted share units (“RSUs”) under the Company’s restricted share unit plan (“RSU Plan”) and, for certain senior management, grants of RSUs combined with grants of stock options under the Company’s share plan.

During the 12 and 52 weeks ended December 29, 2012, the Company awarded nil and 280,106 RSUs (2011: nil and 193,474 RSUs), respectively, at a grant date fair value of \$40.21 (2011: \$40.81), which vest 100% after three years.

During the 52 weeks ended December 29, 2012, the Company cancelled 57,683 RSUs as a result of the departure of certain management personnel in the third quarter of 2012. During the 52 weeks ended December 31, 2011, the Company cancelled 80,537 RSUs as a result of the departure of certain management personnel in the first quarter of 2011.

As at December 29, 2012, there were 386,798 RSUs outstanding (2011: 381,380 RSUs).

During the 12 and 52 weeks ended December 29, 2012, the Company recognized compensation expense of \$1,401 and \$6,235 (2011: \$1,167 and \$4,973), respectively, associated with the RSUs granted during the year and reversed compensation expense of \$nil and \$1,283 (2011: \$nil and \$1,428), respectively, as a result of the cancellation of previously granted RSUs due to the departure of certain management personnel.

The Company entered into cash-settled equity forward agreements to limit its exposure to future price changes in the Company’s share price for the Company’s RSUs granted in 2010 and 2011. The agreement relating to the RSUs granted in 2010 matured in December 2012 and the agreement relating to the RSUs granted in 2011 will mature in December 2013. A percentage of the equity forward derivatives, related to unearned RSUs, has been designated as a hedge.

12. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	12 weeks ended		52 weeks ended	
	December 29, 2012	December 31, 2011	December 29, 2012	December 31, 2011
Accounts receivable	\$ (33,021)	\$ (30,791)	\$ 36,818	\$ (36,242)
Inventory	(39,195)	(58,282)	(93,842)	(84,242)
Prepaid expenses	28,406	26,377	(5,708)	32,759
Accounts payable and accrued liabilities	163,967	160,473	78,190	119,891
	\$ 120,157	\$ 97,777	\$ 15,458	\$ 32,166

SHOPPERS DRUG MART CORPORATION

Exhibit to the Condensed Consolidated Financial Statements (unaudited)

Earnings Coverage Exhibit to the Condensed Consolidated Financial Statements

52 weeks ended December 29, 2012:

Earnings coverage ratio	14.94 times
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The earnings coverage ratio is equal to earnings (before finance expenses and income taxes) divided by finance expenses. Finance expenses include finance expense capitalized to property and equipment.