SHOPPERS DRUG MART CORPORATION

2011 THIRD QUARTER REPORT TO SHAREHOLDERS

SHOPPERS DRUG MART CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at November 9, 2011

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 8, 2011. The Company's unaudited condensed consolidated financial statements and the notes thereto have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. (See "Transition to International Financial Reporting Standards" under "New Accounting Pronouncements" in this Management's Discussion and Analysis.) These financial statements do not contain all disclosures required by IFRS 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 January 1, 2011, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), with consideration given to the IFRS transition disclosures included in Note 13 to the interim condensed consolidated financial statements as at and for the 12 weeks ended March 26, 2011 and the additional annual disclosures included in the Company's condensed consolidated financial statements as at and for the 12 weeks ended March 26, 2011.

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", "expect", "estimate", "forecast", "goal", "intend", "plan", "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 operating and financial results, its capital expenditure plans, its dividend and shareholder distribution policies and the ability to execute on its future operating, investing and financing strategies.

The forward-looking information and statements contained herein are based on certain factors and assumptions, certain of which appear proximate to the applicable forward-looking information and statements contained herein. 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 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 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 a number of provinces; the risk of adverse changes in economic and financial conditions in Canada and globally; the risk of increased competition from other retailers; 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; 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; 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; and the risk that events or series of events may cause business interruptions.

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 January 1, 2011, for the 12 week period ended March 26, 2011 and for the 12 and 24 week periods ended June 18, 2011. 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. Forward-looking information and statements contained in this document about prospective results of operations, financial position or cash flows that are based upon assumptions about future economic conditions and courses of action are presented for the purpose of assisting the Company's shareholders in understanding management's current views regarding those future outcomes and may not be appropriate for other purposes. 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 8, 2011, there were 1,198 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 59 medical clinic pharmacies operating under the name Shoppers Simply Pharmacy® (Pharmaprix Simplement Santé® in Québec) and eight 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™, Balea®, Everyday Market®, Bio-Life®, Nativa®, Simply Food™ and Easypix®, among others, and 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 2010, the Company recorded consolidated sales of approximately $10.2 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 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 International Accounting Standard 27, "Consolidated and Separate Financial Statements" ("IAS 27") based on the concept of control under IAS 27, 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 63 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 in Ontario and Alberta.

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 prescription 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.

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 8, 2011 compared to the 16 and 40 week periods ended October 9, 2010[1], as well as certain other metrics with respect to investing activities for the 16 and 40 week periods ended October 8, 2011 and financial position as at that same date.

- Third quarter sales of $3.111 billion, an increase of 2.1%.
  - Year-to-date sales of $7.852 billion, an increase of 2.1%.

- Third quarter comparable store total sales growth of 1.5%, comprised of a comparable prescription sales growth of 1.1% and comparable front store sales growth of 1.8%.
  - Year-to-date comparable store total sales growth of 1.4%, comprised of a comparable prescription sales growth of 0.1% and comparable front store sales growth of 2.8%.

- Third quarter prescription count growth of 3.6% and comparable store prescription count growth of 3.4%.
  - Year-to-date prescription count growth of 3.8% and comparable store prescription count growth of 3.8%.

- Third quarter EBITDA[2] of $345 million, an increase of 2.7% compared to adjusted EBITDA[3] of $336 million.
  - Year-to-date EBITDA of $881 million, an increase of 2.2% compared to adjusted EBITDA[3] of $862 million.

- Third quarter EBITDA margin[4] of 11.11%, an increase of 8 basis points compared to adjusted EBITDA margin[5] of 11.03%.
  - Year-to-date EBITDA margin of 11.22%, an increase of 1 basis point compared to adjusted EBITDA margin[5] of 11.21%.

- Third quarter adjusted net earnings[6] of $170 million or $0.79 per share, an increase of 5.0% compared to adjusted net earnings[7] of $162 million or $0.74 per share in the third quarter of 2010.
  - Year-to-date adjusted net earnings[6] of $435 million or $2.01 per share, an increase of 3.3% compared to adjusted net earnings[8] of $422 million or $1.94 per share.

- Third quarter capital expenditure program of $124 million compared to $149 million in the same period of the prior year. Opened 15 new drug stores, including three acquired outpatient hospital pharmacies and six relocations, completed eight major drug store expansions and remodelled/converted 18 drug stores to smaller prototype formats.
  - Year-to-date capital expenditure program of $285 million compared to $358 million in the same period of the prior year. Opened or acquired 46 new drug stores, 25 of which were relocations, completed 19 major drug store expansions and remodelled/converted 41 drug stores to smaller prototype formats.
  - Year-over-year increase in retail selling square footage of 4.3%.

- Third quarter and year-to-date share repurchases of 2,691,400 common shares at an aggregate cost of $105 million, representing an average repurchase price of $38.92 per common share.

- Maintained desired capital structure and financial position.
  - Net debt to equity ratio of 0.29:1 at October 8, 2011 compared to 0.34:1 a year ago.
  - Net debt to total capitalization ratio of 0.22:1 at October 8, 2011 compared to 0.26:1 a year ago.

(1) In preparing its 2010 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("previous Canadian GAAP"). (See Note 13 to the accompanying unaudited condensed consolidated financial statements of the Company.)

(2) 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.)

(3) EBITDA, excluding the impact of a $10 million (pre-tax) charge to settle a long-standing legal dispute related to a commercial arrangement with one of the Company's ancillary businesses.

(4) EBITDA divided by sales.

(5) Adjusted EBITDA divided by sales.

(6) Net earnings, excluding a gain on disposal of $3 million (pre-tax) in respect of a sale-leaseback transaction involving certain of the Company's retail properties.

(7) Net earnings, excluding the after-tax impact of the aforementioned legal settlement charge referred to in footnote (3) above.

(8) Net earnings, excluding the after-tax impact of the aforementioned legal settlement charge referred to in footnote (3) above, as well as the impact of a gain on disposal of $12 million (pre-tax) in respect of a first quarter sale-leaseback transaction involving certain of the Company's retail properties.

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 8, 2011	16 Weeks Ended October 9, 2010[(1)]	40 Weeks Ended October 8, 2011	40 Weeks Ended October 9, 2010[(1)]
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$ 3,110,590	$ 3,047,429	$ 7,851,756	$ 7,692,749
Cost of goods sold	1,921,607	1,891,041	4,844,371	4,782,275
Gross profit	1,188,983	1,156,388	3,007,385	2,910,474
Operating and administrative expenses	932,209	917,516	2,352,469	2,264,765
Operating income	256,774	238,872	654,916	645,709
Finance expenses	19,732	19,059	49,171	46,933
Earnings before income taxes	237,042	219,813	605,745	598,776
Income taxes	64,593	65,089	167,830	175,833
Net earnings	$ 172,449	$ 154,724	$ 437,915	$ 422,943
Net earnings per common share				
- Basic	$ 0.80	$ 0.71	$ 2.02	$ 1.95
- Diluted	$ 0.80	$ 0.71	$ 2.02	$ 1.94

EBITDA Reconciliation

	16 Weeks Ended October 8, 2011	16 Weeks Ended October 9, 2010[(1)]	40 Weeks Ended October 8, 2011	40 Weeks Ended October 9, 2010[(1)]
Net earnings	$ 172,449	$ 154,724	$ 437,915	$ 422,943
Add the following:				
- Income taxes	64,593	65,089	167,830	175,833
- Finance expenses	19,732	19,059	49,171	46,933
Operating income	256,774	238,872	654,916	645,709
Add the following:				
- Depreciation and amortization expense	88,665	87,092	226,277	206,259
EBITDA	$ 345,439	$ 325,964	$ 881,193	$ 851,968

(1) In preparing its 2010 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. (See Note 13 to the accompanying unaudited condensed consolidated financial statements of the Company.)

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 prescription 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 deferred based on the fair value of the award credits and 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 2011 were $3.111 billion compared to $3.047 billion in the same period last year, an increase of $64 million or 2.1%, driven by sales growth in both prescriptions and in the front of the store. On a same-store basis, sales increased 1.5% during the third quarter of 2011. Year-to-date, sales were $7.852 billion, an increase of 2.1% over the same period last year. On a same-store basis, sales increased 1.4% during the first three quarters of 2011.

Prescription sales were $1.514 billion in the third quarter of 2011 compared to $1.492 billion in the third quarter of 2010, an increase of $22 million or 1.5%. During the third quarter of 2011, prescription sales accounted for 48.7% of the Company's sales mix compared to 49.0% in the same period last year. On a same-store basis, prescription sales increased 1.1% during the third quarter of 2011, as growth in the number of prescriptions filled remained strong, however this volume growth continues to be largely offset by a reduction in average prescription value. During the third quarter of 2011, total prescription counts increased 3.6% compared to the same period last year and were up 3.4% on a same-store basis. The decrease in average prescription value can be attributed to a reduction in generic prescription reimbursement rates, the result of recently implemented and ongoing drug system reform initiatives in certain jurisdictions of Canada, combined with increasing generic prescription utilization rates. In the third quarter of 2011, generic molecules represented 56.9% of prescriptions dispensed compared to 54.8% of prescriptions dispensed in the third quarter of 2010. Year-to-date, prescription sales increased 0.2% to $3.819 billion and accounted for 48.6% of the Company's sales mix compared to 49.6% in the same period last year. On a same store basis, prescription sales increased 0.1% during the first three quarters of 2011. Year-to-date, prescription counts increased 3.8% on both a total and a same-store basis compared to the same period last year.

Front store sales were $1.596 billion in the third quarter of 2011 compared to $1.555 billion in the third quarter of 2010, an increase of $41 million or 2.6%, led by strength in cosmetics, food and confection and other convenience categories. The Company's store network development program, which resulted in a 4.3% increase in retail selling space compared to a year ago, continues to have a positive impact on sales growth. On a same-store basis, front store sales increased 1.8% during the third quarter of 2011. Year-to-date, front store sales were $4.033 billion, an increase of 3.9% over the same period last year. On a same-store basis, front store sales increased 2.8% during the first three quarters of 2011.

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 $1.922 billion in the third quarter of 2011 compared to $1.891 billion in the same period last year, an increase of $31 million or 1.6%. Expressed as a percentage of sales, cost of goods sold declined by 28 basis points in the third quarter of 2011 versus the same period last year, reflecting not only cost reductions in generic prescription molecules, largely the result of the above referenced drug system reform initiatives, but also improved purchasing synergies and margins on front store merchandise.

Year-to-date, cost of goods sold increased by 1.3% to $4.844 billion. Expressed as a percentage of sales, cost of goods sold declined by 47 basis points in the first three quarters of 2011 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 8 to the accompanying unaudited condensed consolidated financial statements of the Company.)

Operating and administrative expenses, excluding depreciation and amortization expense, were $844 million in the third quarter of 2011 compared to an adjusted amount of $820 million in the same period last year, an increase of $24 million or 2.9%, with the prior year's amount adjusted to exclude the impact of a charge of $10 million (pre-tax) to settle a long-standing legal dispute related to a commercial arrangement with one of the Company's ancillary businesses. This increase can be largely attributed to higher operating expenses at store level associated with the Company's network growth and expansion initiatives, principally occupancy, wages and benefits, along with increased Associate earnings, partially offset by cost reduction, productivity and efficiency initiatives in comparable stores. Expressed as a percentage of sales, operating and administrative expenses, excluding depreciation and amortization expense, increased by 21 basis points in the third quarter of 2011 versus the comparative prior year period's adjusted amount, an increase that also reflects, in part, the impact of top-line deflation stemming from the above referenced drug system reform initiatives and greater generic prescription utilization.

Year-to-date, operating and administrative expenses, excluding depreciation and amortization expense, were $2.126 billion compared to an adjusted amount of $2.048 billion in the same period last year, an increase of $78 million or 3.8%, with the prior year's amount adjusted to exclude the impact of the $10 million (pre-tax) legal settlement charge referred to above. Expressed as a percentage of sales, operating and administrative expenses, excluding depreciation and amortization expense, increased by 45 basis points in the first three quarters of 2011 versus the comparative prior year period's adjusted amount.

Third quarter depreciation and amortization expense, inclusive of a gain on disposal of $3 million (pre-tax) in respect of a sale-leaseback transaction involving certain of the Company's retail properties, was $89 million. Excluding the impact of this gain, adjusted depreciation and amortization expense for the third quarter was $92 million compared to $87 million in the same period last year, an increase of $5 million or 5.8%. Expressed as a percentage of sales, adjusted depreciation and amortization expense increased by 10 basis points in the third quarter of 2011 versus the comparative prior year period, an increase which can be attributed to continued investments in the store network and supporting infrastructure, along with top-line deflation as a result of the above referenced drug system reform initiatives.

Year-to-date, depreciation and amortization expense, adjusted to exclude the impact of the aforementioned gain on disposal of $3 million (pre-tax), was $230 million compared to adjusted depreciation and amortization expense of $218 million in the same period last year, an increase of $12 million or 5.2%. Adjusted depreciation and amortization expense for the first three quarters of 2010 excludes the impact of a first quarter gain on disposal of $12 million (pre-tax) in respect of a sale-leaseback transaction involving certain of the Company's retail properties. Expressed as a percentage of sales, adjusted depreciation and amortization expense increased by 9 basis points in the first three quarters of 2011 versus the comparative prior year period.

Operating Income

Third quarter operating income, inclusive of the aforementioned gain on disposal of $3 million (pre-tax), was $257 million. Excluding the impact of this gain, adjusted operating income for the third quarter was $254 million compared to adjusted operating income of $249 million in the same period last year. Adjusted operating income for the third quarter of 2010 excludes the impact of the above referenced $10 million (pre-tax) legal settlement charge. As described above, solid performance in the front of the store was partially offset by continued downward pressure on sales and margin dollars in the dispensary as a result of drug system reform initiatives implemented in a number of provinces. These results also reflect the benefits from cost reduction, productivity and efficiency initiatives in comparable stores, which served to partially offset higher operating expenses at store level associated with the Company's network growth and expansion initiatives, principally occupancy, wages and benefits, along with increased Associate earnings. Third quarter adjusted operating margin (adjusted operating income divided by sales) declined by 4 basis points to 8.14% compared to an adjusted operating margin of 8.18% in the third quarter of 2010. The Company's EBITDA margin (EBITDA divided by sales) was 11.11% in the third quarter of 2011, an 8 basis point improvement compared to the adjusted EBITDA margin of 11.03% posted in the third quarter of last year. Adjusted EBITDA margin for the third quarter of the prior year excludes the impact of the $10 million (pre-tax) legal settlement charge referred to above.

Year-to-date, operating income, inclusive of the aforementioned gain on disposal of $3 million (pre-tax), was $655 million. Excluding the impact of this gain, adjusted operating income for the first three quarters of 2011 was $652 million compared to adjusted operating income of $644 million in the same period last year. In addition to excluding the impact of the aforementioned legal settlement charge of $10 million (pre-tax), adjusted operating income for the first three quarters of 2010 also excludes the impact of the previously referenced first quarter gain on disposal of $12 million (pre-tax). Year-to-date, adjusted operating margin declined by 7 basis points to 8.30% compared to an adjusted operating margin of 8.37% in the first three quarters of 2010. The Company's EBITDA margin was 11.22% during the first three quarters of 2011, essentially unchanged from the adjusted EBITDA margin of 11.21% posted in the same period last year. Adjusted EBITDA margin for the first three quarters of 2010 excludes the impact of the third quarter legal settlement charge of $10 million (pre-tax) referred to above.

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 $20 million in the third quarter of 2011 compared to $19 million in the same period last year, an increase of $1 million or 3.5%. Interest expense was higher as a result of a market-driven increase in short-term interest rates on the Company's floating rate debt obligations, along with higher bank fees associated with the Company's revolving term credit facility which was refinanced in the fourth quarter of 2010. This higher interest expense was partially offset by interest expense savings due to the Company having a lower average amount of consolidated net debt outstanding during the quarter and from the maturity, in the fourth quarter of 2010, of an interest rate derivative agreement that converted an aggregate notional principal amount of $50 million of floating rate debt into fixed rate debt. Year-to-date, interest expense was $49 million compared to $47 million in the first three quarters of the prior year, an increase of 4.8%.

Income Taxes

The Company's effective income tax rate in the third quarter and first three quarters of 2011 was 27.2% and 27.7%, respectively, compared to 29.6% and 29.4% 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, inclusive of the gain on disposal of $3 million (pre-tax), were $172 million. Excluding the impact of this gain, adjusted net earnings for the third quarter of 2011 were $170 million compared to adjusted net earnings of $162 million in the same period last year, an increase of $8 million or 5.0%. Adjusted net earnings for the prior year exclude the impact of the previously referenced $10 million (pre-tax) legal settlement charge. On a diluted basis, adjusted earnings per share were $0.79 in the third quarter of 2011 compared to $0.74 in the same period last year.

Net earnings for the first three quarters of 2011, inclusive of the aforementioned third quarter gain on disposal of $3 million (pre-tax), were $438 million. Excluding the impact of this gain, adjusted net earnings for the first three quarters of 2011 were $435 million compared to adjusted net earnings of $422 million in the same period last year, an increase of $13 million, or 3.3%. In addition to excluding the impact of the aforementioned legal settlement charge of $10 million (pre-tax) incurred in the third quarter of 2010, adjusted net earnings for the first three quarters of last year also exclude the impact of a first quarter gain on disposal of $12 million (pre-tax) in respect of a sale-leaseback transaction. On a diluted basis, adjusted earnings per share were $2.01 in the first three quarters of 2011 compared to $1.94 in the same period last year.

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 8, 2011	January 1, 2011[1]
Cash	$ (76,456)	$ (64,354)
Bank indebtedness	240,939	209,013
Commercial paper	-	127,828
Current portion of long-term debt	249,817	-
Long-term debt	695,487	943,412
Financing lease obligations	106,179	79,031
Net debt	1,215,966	1,294,930
Shareholders' equity	4,263,011	4,092,547
Total capitalization	$ 5,478,977	$ 5,387,477
Net debt:Shareholders' equity	0.29:1	0.32:1
Net debt:Total capitalization	0.22:1	0.24:1
Net debt:EBITDA[2]	1.01:1	1.10:1
EBITDA:Cash interest expense[2][3]	18.68:1	18.62:1

(1) In preparing its 2010 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP. (See Note 13 to the accompanying unaudited condensed consolidated financial statements of the Company.)

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

(3) 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.

Financial Ratios and Credit Ratings

The following table provides a summary of the Company's credit ratings at October 8, 2011.

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

There were no changes to any of the Company's credit ratings during the first three quarters of 2011.

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 215,174,116 common shares outstanding at November 9, 2011. As at this same date, the Company had issued options to acquire 568,084 of its common shares pursuant to its stock-based compensation plans, of which 445,998 were exercisable.

Normal Course Issuer Bid

On February 10, 2011, the Company's Board of Directors authorized the purchase of up to 8,700,000 of its common shares, representing approximately 4.0% of its common shares then outstanding, by way of normal course purchases effected through the facilities of the Toronto Stock Exchange (the "TSX"). The Company was able to commence purchases under this program on February 15, 2011. The program will terminate on February 14, 2012, 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. For purposes of the TSX rules, a maximum of 170,759 common shares may be purchased by the Company on any one day under the bid, 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.

At the end of the second quarter, no repurchases had been made under this program. During the third quarter of 2011, the Company repurchased 2,691,400 common shares under the program at an aggregate cost of $105 million, representing an average repurchase price of $38.92 per common share. During the third quarter, 2,376,600 of the repurchased common shares were cancelled, with the remaining 314,800 common shares cancelled upon settlement, which was subsequent to quarter-end. 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.)

Financing Activities

Subsequent to the end of the third quarter, on October 27, 2011, the Company amended its previously existing $750 million revolving term credit facility that was to mature on December 10, 2014. The credit facility was amended to reduce the size of the credit facility to $725 million, extend the maturity date by one year to December 10, 2015, reduce the applicable stamping fee on bankers' acceptance borrowings from 150 basis points per annum to 100 basis points per annum, and reduce the applicable commitment fee rate on undrawn amounts to 20 basis points per annum from 37.5 basis points per annum. The consolidated net debt position of the Company remained substantially unchanged as a result of this refinancing. The new credit facility is available for general corporate purposes, including backstopping the Company's $500 million commercial paper program. (See note 14 to the accompanying unaudited condensed consolidated financial statements of the Company.)

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, 2015, less what is currently drawn and/or being utilized to support commercial paper issued and outstanding; and (iii) up to $500 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 8, 2011, $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 2011. At January 1, 2011, $9 million of this facility was utilized, all in respect of outstanding letters of credit. At October 8, 2011, the

Company did not have any commercial paper issued and outstanding under its commercial paper program, unchanged from the end of the second quarter of 2011 and down from $128 million at the end of 2010.

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 2011, the Company's maximum obligation in respect of such guarantees was $520 million, unchanged from the end of the second quarter of 2011 and the end of the prior year. At October 8, 2011, an aggregate amount of $449 million in available lines of credit had been allocated to the Associates by the various banks compared to $446 million at the end of the second quarter of 2011 and $440 million at the end of the prior year. At October 8, 2011, Associates had drawn an aggregate amount of $244 million against these available lines of credit compared to $255 million at the end of the second quarter of 2011 and $176 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 $450 million of five-year medium-term notes maturing June 3, 2013, which bear interest at a fixed rate of 4.99% per annum (the "Series 2 Notes"), $250 million of three-year medium-term notes maturing January 20, 2012, which bear interest at a fixed rate of 4.80% per annum (the "Series 3 Notes") and $250 million 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"). The Series 2 Notes were issued pursuant to a final short form base shelf prospectus dated May 22, 2008 (the "Prospectus"), as supplemented by a pricing supplement dated May 28, 2008. The Series 3 Notes and Series 4 Notes were issued pursuant to the Prospectus, as supplemented by pricing supplements dated January 14, 2009. The Prospectus and 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.

Cash Flows From Operating Activities

Cash flows from operating activities were $208 million in the third quarter of 2011 compared to $197 million in the same period last year. This increase can be primarily attributed to growth in net earnings adjusted for non-cash items, principally depreciation and amortization, partially offset by a reduction in the rate of increase in other long-term liabilities, primarily deferred rent obligations, as a result of the Company's scaled-back store network growth and expansion initiatives.

Year-to-date, the Company has generated $604 million of cash from operating activities compared to $585 million in the first three quarters of 2010.

Cash Flows Used in Investing Activities

Cash flows used in investing activities were $85 million in the third quarter of 2011 compared to $135 million in the same period last year, a decrease of $50 million or 37.2%. Of these totals, purchases of property and equipment, net of proceeds from any dispositions, amounted to $69 million in the third quarter of 2011 compared to $122 million in the same period last year, reflecting not only a step-down in the Company's retail development and network growth and expansion initiatives, but also $34 million of proceeds resulting from dispositions, $33 million of which related to a sale/leaseback transaction involving nine retail locations. (See note 5 to the accompanying unaudited condensed consolidated financial statements of the Company.) During the third quarter of 2011 and consistent with the same period last year, the Company did not invest any significant funds in the acquisition of drug stores and prescription files. The Company invested a combined $15 million in the purchase and development of intangible and other assets during the third quarter of 2011, primarily computer software, compared to $13 million in the same period last year.

Year-to-date, cash flows used in investing activities were $246 million compared to $307 million in the first three quarters of 2010, a decrease of $61 million or 19.9%. Of these totals, purchases of property and equipment, net of proceeds from any dispositions, amounted to $202 million in the first three quarters of 2011 compared to $261 million in the same period last year. Included in the net purchases of property and equipment in the first three quarters of 2011 was $39 million of proceeds resulting from dispositions, $38 million of which related to sale/leaseback transactions involving certain of the Company's retail properties, compared to $51 million and $48 million, respectively, in the same period last year. Investments in business acquisitions and in the purchase and development of intangible and other assets were $7 million and $36 million, respectively, in the first three quarters of 2011 compared to $11 million and $36 million, respectively, in the same period last year. Investments in business acquisitions relate primarily to acquisitions of drug stores and prescription files, and while the Company has reduced such investments as of late, it will continue to pursue attractive opportunities in the marketplace.

During the third quarter of 2011, the Company opened 15 new drug stores including three acquired outpatient hospital pharmacies and six relocations, closed one smaller drug store and completed eight major drug store expansions. In addition to this activity, 18 existing drug stores were remodeled, converting them to smaller prototype formats. Year-to-date, 46 new drug stores have been opened or acquired, 25 of which were relocations, 5 smaller drug stores were consolidated or closed, 19 major drug store expansions were completed and 41 existing drug stores were remodelled, converting them to smaller prototype formats. At the end of the third quarter of 2011, there were 1,328 retail stores in the Company's network, comprised of 1,257 drug stores (1,198 Shoppers Drug Mart®/Pharmaprix® stores and 59 Shoppers Simply Pharmacy®/Pharmaprix Simplement Santé® stores), 63 Shoppers Home Health Care® stores and eight Murale™ stores.

Cash Flows Used in Financing Activities

Cash flows used in financing activities were $143 million in the third quarter of 2011, as cash outflows of $153 million were partially offset by cash inflows of $10 million. Cash outflows were comprised of $92 million to settle share repurchases, a $6 million decrease in bank indebtedness, a $1 million repayment of financing lease obligations and $54 million for the payment of dividends. Cash inflows were comprised of a $10 million increase in the amount of Associate investment.

In the third quarter of 2011, the net result of the Company's operating, investing and financing activities was a decrease in cash balances of $19 million.

Year-to-date, cash flows used in financing activities were $347 million and the net result of the Company's operating, investing and financing activities was an increase in cash of $12 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

Transition to International Financial Reporting Standards

The Company has adopted International Financial Reporting Standards ("IFRS") for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Company provided information on its transition to IFRS in its 2010 Annual Management's Discussion and Analysis. The assessments and impacts discussion in the 2010 Annual Management's Discussion and Analysis remain largely unchanged.

The Company has completed its assessment of lease classifications. For certain leases, this assessment resulted in the recognition of financing leases under IFRS where previously, they had been considered operating leases under Canadian GAAP. Upon implementation of IFRS, the Company recognized an increase in property and equipment of $51.2 million, an increase in accounts payable and accrued liabilities of $1.2 million, an increase in other long-term liabilities of $53.3 million, a decrease in deferred tax liabilities of $1.5 million and an associated after-tax charge to retained earnings of $1.8 million. Prior to adopting IFRS, the Company recognized a future tax asset on the temporary difference between the cost base and the tax base of inventory. This temporary difference relates primarily to consideration received from vendors which is classified as a reduction to the cost of inventory on consolidation. Under IFRS, this reduction to the cost of inventory is not considered a temporary difference and, as such, there is no deferred tax asset. Upon implementation of IFRS, the Company recognized a decrease in deferred tax assets of $60.7 million and a corresponding decrease in retained earnings.

The Company has provided a detailed explanation of the impacts of this transition in Note 13 of the Company's first quarter 2011 unaudited interim period financial statements ("Note 13"). Note 13 includes reconciliations of the Company's balance sheet and shareholders' equity from Canadian GAAP to IFRS as at January 1, 2011, March 27, 2010 and January 3, 2010, and its fiscal 2010 net earnings and comprehensive income for the 52 weeks ended January 1, 2011 and 12 weeks ended March 27, 2010. Explanations of the individual impacts of adopting IFRS identified in the reconciliations are also provided, as are the Company's elections under IFRS 1 "First-time Adoption of International Financial Reporting Standards". Note 13 of the Company's third quarter 2011 unaudited condensed consolidated financial statements includes reconciliations of the Company's balance sheet and shareholders' equity from Canadian GAAP to IFRS as at October 9, 2010 and its net earnings and comprehensive income for the 16 and 40 weeks ended October 9, 2010.

Future Accounting Standards

Financial Instruments – Disclosures

The International Accounting Standards Board (the "IASB") has issued an amendment to IFRS 7, "Financial Instruments: Disclosures" (the "IFRS 7 amendment"), requiring incremental disclosures regarding transfers of financial assets. The IFRS 7 amendment is effective for annual periods beginning on or after July 1, 2011 and can be applied prospectively. The Company will apply the amendment at the beginning of its 2012 financial year and does not expect the implementation to have a significant impact on the Company's disclosures.

Deferred Taxes – Recovery of Underlying Assets

The IASB has issued an amendment to IAS 12, "Income Taxes" (the "IAS 12 amendment"), that 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 Company will apply the amendment at the beginning of its 2012 financial year. The Company is assessing the impact of the IAS 12 amendment on its results of operations, financial position and disclosures.

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, 2013 and must be applied retrospectively. The Company is assessing the impact of the new standard on its results of operations, financial position and disclosures.

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.

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 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 Company is assessing the impact of IFRS 10 on its results of operations, financial position and disclosures.

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 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.

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.

Separate Financial Statements

The IASB has issued a new 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.

Investments in Associates and Joint Ventures

The IASB has issued a new 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.

Presentation of Financial Statements – Other Comprehensive Income

The IASB issued an amendment to IAS 1, "Presentation of Financial Statements" ("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.

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.

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. Except where noted, this information has been prepared in accordance with IFRS.

	Third Quarter		**Second Quarter**		**First Quarter**		**Fourth Quarter**	
($000s, except per share data – unaudited)	**2011** (16 Weeks)	**2010** (16 Weeks)	**2011** (12 Weeks)	**2010** (12 Weeks)	**2011** (12 Weeks)	**2010** (12 Weeks)	**2010** (12 Weeks)	**2009**[(1)] (12 Weeks)
Sales	$ 3,110,590	$ 3,047,429	$ 2,394,145	$ 2,360,887	$ 2,347,021	$ 2,284,433	$ 2,499,965	$ 2,488,544
Net earnings	$ 172,449	$ 154,724	$ 147,925	$ 145,967	$ 117,541	$ 122,252	$ 168,906	$ 171,060
Per common share								
- Basic net earnings	$ 0.80	$ 0.71	$ 0.68	$ 0.67	$ 0.54	$ 0.56	$ 0.78	$ 0.79
- Diluted net earnings	$ 0.80	$ 0.71	$ 0.68	$ 0.67	$ 0.54	$ 0.56	$ 0.78	$ 0.79

(1) The selected information that is presented for quarterly periods in fiscal 2009 does not reflect the impact of the adoption of IFRS.

The Company experienced growth in sales in each of the four most recent quarters compared to the same quarters of the prior year.

Although not directly comparable, net earnings decreased in the fourth quarter of 2010 compared to the same quarter of the prior year due in part to the impact of the drug system reform initiatives implemented in certain jurisdictions of Canada, principally Ontario, which negatively impacted pharmacy reimbursement and margin rates, but also due to the recognition of an impairment charge of $7 million (pre-tax) as a result of the adoption of IFRS. This decrease was partially offset by strong performance in the front of the store, improved purchasing synergies and continued gains in productivity and efficiency. Net earnings decreased in the first quarter of 2011 compared to the same quarter of the prior year, however the prior year's results include a gain on disposal of $12 million (pre-tax) in respect of a sale-leaseback transaction involving certain of the Company's retail properties. Net earnings increased in the second quarter of 2011 compared to the same quarter of the prior year, as continued strong performance in the front of the store served to partially mitigate the downward pressure on sales and margin dollars in the dispensary and the Company realized benefits from cost reduction initiatives and further gains in productivity and efficiency in identical stores. Net earnings increased in the third quarter of 2011 compared to the same quarter of the prior year, reflecting solid performance in the front of the store, partially offset by continued downward pressure on sales and margin in the dispensary as a result of drug reform initiatives implemented in a number of provinces. These results also reflect the benefits of cost reduction, productivity and efficiency initiatives in comparable stores, which served to partially offset higher operating expenses at store level associated with the Company's network growth and expansion initiatives, along with increased Associate earnings. Net earnings for the third quarter of 2011 also include a gain on disposal of $3 million (pre-tax) in respect of a sale-leaseback transaction involving certain of the Company's retail properties, while net earnings for the third quarter of the prior year include a charge of $10 million (pre-tax) to settle a long-standing legal dispute related to a commercial arrangement with one of the Company's ancillary businesses.

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

Industry and Regulatory Developments

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, including the risk of adverse drug system reform initiatives which may adversely impact the revenues and profitability that may be derived from prescription drug sales. The Company is reliant on prescription drug sales for a significant portion of its sales and profits.

The following is a discussion of significant industry and regulatory developments since the date of the Company's Interim Management's Discussion and Analysis for the 12 and 24 week periods ended June 18, 2011:

New Brunswick

On July 20, 2011, the New Brunswick Department of Health announced, via a press release, that a consultation process for generic prescription drug products was being initiated. As set forth in the companion document referenced in the announcement, Fair Drug Prices for New Brunswickers (the “Companion Document”), one of the main benefits that is being sought through the consultation process is to reform drug pricing to ensure that residents of New Brunswick pay prices for generic prescription drugs that are similar to those paid in the other provinces.

As set forth in the Companion Document, the consultation process has two goals: (i) to lower generic prescription drug prices; and (ii) to support pharmacy services. The Companion Document identifies the options being considered by the Department of Health to lower generic prescription drug prices as setting generic prescription drug prices and addressing pharmacy rebates. With respect to the setting of generic prescription drug prices, the Companion Document identifies capping the price of generic prescription drugs based on a percentage of the price of the equivalent brand name drugs as an option. With respect to pharmacy rebates, the options referenced in the Companion Document are to: (i) require generic prescription drug manufacturers to report the rebates paid to pharmacy and/or to limit the amount of these rebates; and/or (ii) to consider regulating the rebates paid by generic prescription drug manufacturers to pharmacies.

For pharmacy services, the Companion Document provides that the options being considered are: (i) the implementation of funding for New Brunswick PharmaCheck, a medication review service for seniors who are taking more than a specific number of chronic medications and who are New Brunswick Prescription Drug Program beneficiaries; and/or (ii) funding new pharmacy services, for example smoking cessation counselling services.

The consultation occurred from July 20, 2011 until August 15, 2011. As part of the consultation process, representatives of the Department of Health met with pharmacists and pharmacy owners, drug manufacturers, wholesalers and private insurers to get their input on how to get better drug prices for residents of New Brunswick. In addition, residents, pharmacists, pharmacy owners and other key stakeholders were encouraged to submit a brief on how to lower generic prescription drug prices in New Brunswick. The information received as part of the consultation process is being compiled and analyzed by the Department of Health and a recommendation is being prepared for the government.

British Columbia

On July 7, 2010, the British Columbia Ministry of Health Services, the British Columbia Pharmacy Association and the Canadian Association of Chain Drug Stores entered into a Pharmacy Services Agreement that lowered the cost of generic prescription drug products in the province. The pricing policy contained in the Pharmacy Services Agreement currently sets the price of generic prescription drug products in the province at 40% of the price of the corresponding equivalent brand name drug and reduces this price to 35% of the price of the corresponding equivalent brand name drug on April 2, 2012. In addition, the Pharmacy Services Agreement provides that the 35% pricing that is to be applicable on April 2, 2012, is subject to renegotiation if the prevailing price for generic prescription drugs in the market varies from 35% percent of the price of the equivalent brand name drug.

On September 28, 2011, British Columbia's Health Minister stated that he had notified the pharmacy associations and the generic prescription drug manufacturers that the province would be reopening negotiations on generic prescription drug prices.

The parties now have sixty (60) days after the date of the issuance of the notice by the province in which to come to an agreement on the new pricing for generic prescription drug products. If the parties are unable to reach agreement, the Pharmacy Services Agreement may be terminated by either party on April 1, 2012.

The Health Minister stated that the Pharmacy Services Agreement was signed on the basis that over the life of the three-year agreement there would be savings of $170 million and that current projections were to only realize savings of $122 million, approximately $50 million less than the basis on which the agreement was signed. The Health Minister indicated that unless those savings can be made up through renegotiation of the pricing policy for generic prescription drug products, the government would look at a legislated option.

Manitoba

On October 25, 2011, the Manitoba Ministry of Health published amendments to the Manitoba Drug Benefits and Interchangeability Formulary (the "Manitoba Formulary") which, effective November 24, 2011, will reduce the prices for a number of the generic drug products included on the Manitoba Formulary from between 59% and 63% to between 36% and 47% of the equivalent brand name drug price.

A number of the provinces have already implemented legislative or other measures that have been effective in reducing prescription drug costs in those jurisdictions and the governments in other provincial jurisdictions are implementing or may look to implement similar measures. In some provincial jurisdictions, elements of the laws and regulations that impact pharmacy reimbursement and manufacturer allowances for sales to the public drug plans extend to sales in the private sector. Also, private third-party payers (such as corporate employers and their insurers) are looking or may look to benefit from any measures implemented by government payers to reduce prescription drug costs for public plans by attempting to extend 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 pharmacy reimbursement for prescription drugs provided to their members.

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 interest rate derivative agreements. In 2010, the Company used an interest rate derivative agreement to convert an aggregate notional principal amount of $50 million of floating rate debt into fixed rate debt. The fixed rate payable by the Company under this agreement was 4.18% and contained reset terms of one month. This agreement matured in December 2010.

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 financial institutions. There was no such exposure as at October 8, 2011, as the Company was not party to any interest rate derivative agreements as at that date.

As at October 8, 2011, the Company had $244 million (2010 - $361 million) of unhedged floating rate debt. During the 16 and 40 week periods ended October 8, 2011, the Company's average outstanding unhedged floating rate debt was $352 million and $407 million (2010 - $492 million and $556 million), respectively. Had interest rates been higher or lower by 50 basis points during the 16 and 40 week periods ended October 8, 2011, net earnings would have decreased or increased, respectively, by approximately $0.4 million and $1.1 million (2010 - $0.5 million and $1.5 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 uses 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 long-term incentive plan ("LTIP") and 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 market values of the equity forward agreements in place at October 8, 2011, the Company recognized a liability of $1.2 million, of which $0.2 million is presented in accounts payable and accrued liabilities and $1.0 million is presented in other long-term liabilities. Based on market values of the equity forward agreements in place at October 9, 2010, the Company recognized a liability of $5.0 million, of which $1.8 million was presented in accounts payable and accrued liabilities and $3.2 million was presented in other long-term liabilities. During the 16 and 40 week periods ended October 8, 2011 and October 9, 2010, the Company assessed that the percentages of the equity forward agreements in place related to unearned units under the LTIP and RSU Plan were effective hedges for its exposure to future changes in the market price of its common shares in respect of the unearned units. 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, 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 CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer have designed, or caused to be designed under their supervision, internal control 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 Canadian GAAP. 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 control 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, operating margin, adjusted operating margin, EBITDA (earnings before finance expenses, income taxes and depreciation and amortization), EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, adjusted earnings, adjusted earnings per share and cash interest expense. Non-IFRS financial measures do not have standardized meanings prescribed by IFRS and, therefore, may not be comparable to similar 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 and EBITDA margin, are also common measures used by investors, financial analysts and rating agencies. These groups may use EBITDA, EBITDA margin and other non-IFRS financial measures to value the Company and assess the Company's ability to service its debt.