Shoppers Drug Mart Corporation

Condensed Consolidated Statements of Earnings
(unaudited)
(in thousands of Canadian dollars, except per share amounts)

		16 Weeks Ended		40 Weeks Ended	
	Note	**October 8, 2011**	October 9, 2010[1]	**October 8, 2011**	October 9, 2010[1]
Sales		**$ 3,110,590**	$ 3,047,429	**$ 7,851,756**	$ 7,692,749
Cost of goods sold	6	**(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	7,8	**(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					
Current		**(76,066)**	(68,600)	**(174,422)**	(177,640)
Deferred		**11,473**	3,511	**6,592**	1,807
		(64,593)	(65,089)	**(167,830)**	(175,833)
Net earnings		**$ 172,449**	$ 154,724	**$ 437,915**	$ 422,943
Net earnings per common share					
Basic	10	**$ 0.80**	$ 0.71	**$ 2.02**	$ 1.95
Diluted	10	**$ 0.80**	$ 0.71	**$ 2.02**	$ 1.94
Weighted average common shares outstanding (millions):					
Basic	10	**216.4**	217.4	**217.1**	217.4
Diluted	10	**216.5**	217.5	**217.2**	217.5
Actual common shares outstanding (millions)		**214.9**	217.5	**214.9**	217.5

[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 first quarter condensed consolidated financial statements for the 12 weeks ended March 26, 2011 for an explanation of the impact of the transition to IFRS on the balance sheet as at January 3, 2010 and Note 13 to these condensed consolidated financial statements for an explanation of the impact on the 16 and 40 weeks ended October 9, 2010.

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)

	16 Weeks Ended		40 Weeks Ended	
	October 8, 2011	October 9, 2010(1)	**October 8, 2011**	October 9, 2010(1)
Net earnings	**$ 172,449**	$ 154,724	**$ 437,915**	$ 422,943
Other comprehensive income (loss), net of tax				
Effective portion of changes in fair value of hedges on interest rate derivatives (net of tax of $nil and $nil (2010: $155 and $438))	-	349	-	922
Effective portion of changes in fair value of hedges on equity forward derivatives (net of tax of $33 and $17 (2010: $488 and $413))	93	1,236	(54)	(1,045)
Net change in fair value of hedges on interest rate and equity forward derivatives transferred to earnings (net of tax of $31 and $142 (2010: $5 and $12))	78	12	359	30
Other comprehensive income (loss), net of tax	171	1,597	305	(93)
Total comprehensive income	$ 172,620	$ 156,321	$ 438,220	$ 422,850

(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 first quarter condensed consolidated financial statements for the 12 weeks ended March 26, 2011 for an explanation of the impact of the transition to IFRS on the balance sheet as at January 3, 2010 and Note 13 to these condensed consolidated financial statements for an explanation of the impact on the 16 and 40 weeks ended October 9, 2010.

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	October 8 2011	January 1, 2011[1][2]	October 9 2010[1][2]
Current assets				
Cash		**$ 76,456**	$ 64,354	$ 49,873
Accounts receivable		**437,540**	432,089	442,046
Inventory		**1,983,765**	1,957,525	1,876,693
Income taxes recoverable		**13,759**	20,384	14,382
Prepaid expenses and deposits		**62,945**	68,468	56,508
Total current assets		**2,574,465**	2,542,820	2,439,502
Non-current assets				
Property and equipment		**1,735,955**	1,690,110	1,649,291
Goodwill		**2,498,637**	2,493,108	2,493,037
Intangible assets		**274,004**	272,217	255,150
Other assets		**18,873**	19,678	17,959
Deferred tax assets		**23,045**	26,264	27,948
Total non-current assets		**4,550,514**	4,501,377	4,443,385
Total assets		**$ 7,124,979**	$ 7,044,197	$ 6,882,887
Liabilities				
Bank indebtedness		**$ 240,939**	$ 209,013	$ 278,894
Commercial paper		-	127,828	128,726
Accounts payable and accrued liabilities		**971,121**	1,002,806	919,667
Income taxes payable		-	-	-
Dividends payable	9	**53,815**	48,927	48,927
Current portion of long-term debt		**249,817**	-	-
Associate interest		**138,901**	138,993	127,082
Total current liabilities		**1,654,593**	1,527,567	1,503,296
Long-term debt		**695,487**	943,412	946,218
Other long-term liabilities		**498,203**	457,607	434,280
Deferred tax liabilities		**13,685**	23,064	19,427
Total long-term liabilities		**1,207,375**	1,424,083	1,399,925
Total liabilities		**2,861,968**	2,951,650	2,903,221
Shareholders' equity				
Share capital	9	**1,505,152**	1,520,558	1,520,558
Treasury shares	9	**(12,611)**	-	-
Contributed surplus	11	**10,062**	11,702	11,377
Accumulated other comprehensive loss		**(8,338)**	(8,643)	(1,218)
Retained earnings		**2,768,746**	2,568,930	2,448,949
Total shareholders' equity		**4,263,011**	4,092,547	3,979,666
Total liabilities and shareholders' equity		**$ 7,124,979**	$ 7,044,197	$ 6,882,887

[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 first quarter condensed consolidated financial statements for the 12 weeks ended March 26, 2011 for an explanation of the impact of the transition to IFRS on the balance sheet as at January 3, 2010 and Note 13 to these condensed consolidated financial statements for an explanation of the impact on the balance sheet as at January 1, 2011 and October 9, 2010.

[2]In its interim condensed consolidated financial statements for the 12 and 24 weeks ended June 18, 2011. the Company reclassified the Associate interest balance from long-term liabilities to current liabilities and reflected this change in the comparative balance sheets. See Note 3(a) to the interim condensed consolidated financial statements for the 12 and 24 weeks ended June 18, 2011 for further discussion.

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 January 1, 2011[1]		$ 1,520,558	$ -	$ 11,702	$ (8,643)	$ 2,568,930	$ 4,092,547
Net earnings		-	-	-	-	437,915	437,915
Other comprehensive income		-	-	-	305	-	305
Dividends	9	-	-	-	-	(162,552)	(162,552)
Share repurchases	9	(16,623)	(12,611)	-	-	(75,547)	(104,781)
Share-based payments	11	-	-	(1,394)	-	-	(1,394)
Share options exercised	11	1,210	-	(246)	-	-	964
Repayment of share-purchase loans		7	-	-	-	-	7
Balance as at October 8, 2011		**$ 1,505,152**	**$ (12,611)**	**$ 10,062**	**$ (8,338)**	**$ 2,768,746**	**$ 4,263,011**
Balance as at January 3, 2010[1]		$ 1,519,870	$ -	$ 10,274	$ (1,125)	$ 2,172,777	$ 3,701,796
Net earnings		-	-	-	-	422,943	422,943
Other comprehensive loss		-	-	-	(93)	-	(93)
Dividends	9	-	-	-	-	(146,771)	(146,771)
Share-based payments	11	-	-	1,267	-	-	1,267
Share options exercised	11	655	-	(164)	-	-	491
Repayment of share-purchase loans		33	-	-	-	-	33
Balance as at October 9, 2010[1]		$ 1,520,558	$ -	$ 11,377	$ (1,218)	$ 2,448,949	$ 3,979,666

[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 first quarter condensed consolidated financial statements for the 12 weeks ended March 26, 2011 for an explanation of the impact of the transition to IFRS on the balance sheet as at January 3, 2010 and Note 13 to these condensed consolidated financial statements for an explanation of the impact on the 16 and 40 weeks ended October 9, 2010.

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)

	Note	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]
Cash flows from operating activities					
Net earnings		**$ 172,449**	$ 154,724	**$ 437,915**	$ 422,943
Adjustments for:					
Depreciation and amortization		**91,354**	85,899	**225,692**	211,877
Finance expenses		**19,732**	17,054	**49,171**	46,933
(Gain) loss on sale of property and equipment		**(2,467)**	1,434	**1,164**	(5,008)
Share-based payment transactions		**128**	493	**(1,394)**	1,267
Long-term liabilities		**1,150**	12,534	**6,782**	24,610
Income tax expense		**64,593**	65,089	**167,830**	175,833
		346,939	337,227	**887,160**	878,455
Net change in non-cash working capital balances	12	**(61,303)**	(66,156)	**(64,299)**	(36,909)
Interest paid		**(17,589)**	(16,896)	**(48,950)**	(47,505)
Income tax paid		**(59,683)**	(57,563)	**(169,432)**	(209,317)
Net cash from operating activities		**208,364**	196,612	**604,479**	584,724
Cash flows from investing activities					
Proceeds from disposition of property and equipment	5	**34,229**	14,117	**39,518**	50,999
Business acquisitions	4	**(405)**	-	**(6,657)**	(11,425)
Deposits		**(410)**	(52)	**(875)**	1,509
Acquisition or development of property and equipment		**(103,524)**	(135,617)	**(241,982)**	(311,900)
Acquisition or development of intangible assets		**(20,329)**	(12,966)	**(36,643)**	(34,439)
Other assets		**5,598**	(506)	**805**	(1,530)
Net cash used in investing activities		**(84,841)**	(135,024)	**(245,834)**	(306,786)
Cash flows from financing activities					
Repurchase of own shares	9	**(92,170)**	-	**(92,170)**	-
Proceeds from exercise of share options	11	**358**	462	**964**	491
Repayment of share-purchase loans		**-**	-	**7**	33
(Repayment) borrowings of bank indebtedness, net		**(5,483)**	22,397	**31,967**	8,562
Repayment of commercial paper, net		**-**	(55,000)	**(128,000)**	(132,000)
Repayment of long-term debt		**-**	-	**-**	(1,298)
Repayment of financing lease obligations		**(688)**	(423)	**(1,555)**	(1,016)
Associate interest		**9,641**	7,101	**(92)**	(2,636)
Dividends paid	9	**(54,369)**	(48,922)	**(157,664)**	(144,592)
Net cash used in financing activities		**(142,711)**	(74,385)	**(346,543)**	(272,456)
Net (decrease) increase in cash		**(19,188)**	(12,797)	**12,102**	5,482
Cash, beginning of period		**95,644**	62,670	**64,354**	44,391
Cash, end of period		**$ 76,456**	$ 49,873	**$ 76,456**	$ 49,873

[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 first quarter condensed consolidated financial statements for the 12 weeks ended March 26, 2011 for an explanation of the impact of the transition to IFRS on the balance sheet as at January 3, 2010 and Note 13 to these condensed consolidated financial statements for an explanation of the impact on the 16 and 40 weeks ended October 9, 2010.

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

1. GENERAL INFORMATION

Shoppers Drug Mart Corporation (the "Company") is a public company incorporated and domiciled in Canada, whose shares are 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 1,198 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 59 Shoppers Simply Pharmacy®/Pharmaprix Simplement Santé® medical clinic pharmacies and eight Murale™ beauty stores. In addition, the Company owns and operates 63 Shoppers Home Health Care® stores. Collectively, the Company considers that these stores comprise the "store network". 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 in Ontario and Alberta.

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

(a) Statement of Compliance

These interim 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 the Company expects to adopt in its consolidated financial statements as at and for the financial year ending December 31, 2011 that were described in Note 3 to the Company's first quarter interim condensed consolidated financial statements as at and for the 12 weeks ended March 26, 2011, except as described in Note 3 to these interim condensed consolidated financial statements.

As these interim condensed consolidated financial statements are prepared using International Financial Reporting Standards ("IFRS"), certain disclosures that are required to be included in the annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("previous Canadian GAAP") were included in the Company's interim condensed consolidated financial statements as at and for the 12 weeks ended March 26, 2011.

2. BASIS OF PREPARATION (continued)

These interim condensed consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements, with consideration given to the IFRS transition disclosures included in Note 13 to these interim condensed consolidated financial statements and Note 13 to the first quarter 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 interim condensed consolidated financial statements as at and for the 12 weeks ended March 26, 2011 (Notes 14 through 27).

These interim consolidated financial statements were authorized for issuance by the Board of Directors of the Company on November 9, 2011.

(b) Use of Estimates and Judgements

The preparation of these interim condensed consolidated financial statements in conformity with IFRS requires management to make certain judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

Judgement is commonly used in determining whether a balance or transaction should be recognized in the consolidated financial statements and estimates and assumptions are more commonly used in determining the measurement of recognized transactions and balances. However, judgement and estimates are often interrelated.

The Company has applied judgement in its assessment of the appropriateness of the consolidation of the Associate-owned stores, classification of items such as leases and financial instruments, the recognition of tax losses and provisions, determining the tax rates used for measuring deferred taxes, determining cash-generating units, identifying the indicators of impairment for property and equipment and intangible assets with finite useful lives, and the level of componentization of property and equipment.

Estimates are used when estimating the useful lives of property and equipment and intangible assets for the purposes of depreciation and amortization, when accounting for or measuring items such as inventory provisions, Shoppers Optimum® loyalty card program deferred revenue, assumptions underlying the actuarial determination of retirement benefit obligations, income and other taxes, provisions, certain fair value measures including those related to the valuation of business combinations, share-based payments and financial instruments and when testing goodwill, indefinite useful life intangible assets and other assets for impairment. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

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 31, 2011 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 amendment"), requiring incremental disclosures regarding transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company will apply the amendment at the beginning of its 2012 financial year. The Company does not expect the implementation to have a significant impact on the Company's disclosures.

(ii) 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 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.

(iii) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) 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.

(v) 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 (vi) to (ix) 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.

(vi) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(vii) 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.

(viii) 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.

(ix) 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.

(x) Presentation of Financial Statements – Other Comprehensive Income

The IASB issued an amendment to IAS 1, "Presentation of Financial Statements" (the "IAS 1 amendment") to improve consistency and clarity of the presentation of items of other comprehensive income. A requirement has been added to present items in other comprehensive income grouped on the basis of whether they 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.

(xi) 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.

4. BUSINESS ACQUISITIONS

In the normal course of business, the Company acquires the assets or shares of pharmacies. The total cost of these acquisitions during the 16 and 40 weeks ended October 8, 2011 of $495 and $6,960 (2010: $nil and $11,456), respectively, was allocated primarily to goodwill and other intangible assets based on their fair values. The goodwill acquired represents the benefits the Company expects to receive from the acquisitions. For acquisitions during the 16 and 40 weeks ended October 8, 2011, the Company expects that $nil and $38 (2010: $nil and $7,233), respectively, of acquired goodwill will be deductible for tax purposes.

The values of assets acquired and liabilities assumed have been valued at the acquisition date using fair values. The intangible assets acquired are composed of prescription files. In determining the fair value of prescription files acquired during the 16 and 40 weeks ended October 8, 2011, the Company applied a pre-tax discount rate of 9 percent (2010: 8 percent) to the estimated expected future cash flows.

The operations of the acquired pharmacies have been included in the Company's results of operations from the date of acquisition.

5. SALE-LEASEBACK TRANSACTIONS

During the 16 and 40 weeks ended October 8, 2011, the Company sold certain real estate properties for net proceeds of $33,050 and $38,284 (2010: $7,820 and $47,854), 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 16 and 40 weeks ended October 8, 2011, the Company realized gains on disposal of $8,595 and $8,705 (2010: $834 and $13,832), respectively, of which $5,139 and $5,250 (2010: $1,235 and $1,235), respectively, were deferred under financing lease treatment. The deferred gains are presented in other long-term liabilities and are being amortized over lease terms of 15 to 20 years.

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

6. COST OF GOODS SOLD

During the 16 and 40 weeks ended October 8, 2011, the Company recorded $11,098 and $32,603 (2010: $12,394 and $29,872), respectively, 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 16 and 40 weeks ended October 8, 2011 and October 9, 2010, the Company did not reverse any significant inventory write-downs recognized in previous periods.

7. EMPLOYEE BENEFITS EXPENSE

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

	Note	16 Weeks Ended		40 Weeks Ended	
		October 8 2011	October 9 2010	**October 8 2011**	October 9 2010
Wages and salaries		**$ 423,627**	$ 404,548	**$ 1,049,970**	$ 1,001,075
Statutory deductions		**48,035**	45,340	**128,343**	121,779
Expenses related to pension and benefits		**2,001**	1,864	**5,003**	4,661
Share-based payment transactions	11	**1,718**	3,867	**715**	9,758
		$ 475,381	$ 455,619	**$ 1,184,031**	$ 1,137,273

8. DEPRECIATION AND AMORTIZATION EXPENSE

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

	16 Weeks Ended		40 Weeks Ended	
	October 8 2011	October 9 2010	**October 8 2011**	October 9 2010
Property and equipment	**$ 74,691**	$ 73,805	**$ 191,658**	$ 173,385
Intangible assets	**13,974**	13,287	**34,619**	32,874
	$ 88,665	$ 87,092	**$ 226,277**	$ 206,259

These amounts include net gains and losses on the disposition of property and equipment and intangible assets and any impairment losses recognized by the Company. During the 16 and 40 weeks ended October 8, 2011, the Company recognized a net gain of $2,609 and a net loss of $829 on the disposal of property and equipment (2010: net loss of $921 and net gain of $8,144), respectively and a net loss on the disposal of intangible assets of $nil and $nil (2010: $nil and $4), respectively. The Company did not recognize any impairment losses on store assets in property and equipment during the 16 and 40 weeks ended October 8, 2011. During the 16 and 40 weeks ended October 9, 2010, the Company recognized impairment losses of $400 and $2,863, respectively, associated with store assets in property and equipment. During the 16 and 40 weeks ended October 8, 2011 and October 9, 2010, the Company did not recognize any impairment losses on intangible assets.

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

9. SHARE CAPITAL

Normal Course Issuer Bid

On February 10, 2011, the Company implemented a normal course issuer bid to repurchase, for cancellation, up to 8,700,000 of its common shares, representing approximately 4.0% 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, 2012. Repurchases will be made at market prices in accordance with the requirements of the TSX.

From February 10, 2011 to October 8, 2011, the Company purchased and cancelled 2,376,600 common shares under the normal course issuer bid at a cost of $92,170. The premium paid over the average book value of the shares repurchased of $75,547 has been charged to retained earnings. The Company purchased an additional 314,800 shares at the end of the period at a cost of $12,611. These shares were cancelled subsequent to the end of the period. The cost of this later purchase is recorded as treasury shares in Shareholders' equity as at October 8, 2011.

Dividends

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

Declaration Date	Record Date	Payment Date	Dividend per Common Share
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 15, 2011	$ 0.250
November 9, 2011	December 30, 2011	January 13, 2012	$ 0.250
February 11, 2010	March 31, 2010	April 15, 2010	$ 0.225
April 28, 2010	June 30, 2010	July 15, 2010	$ 0.225
July 22, 2010	September 30, 2010	October 15, 2010	$ 0.225
November 9, 2010	December 31, 2010	January 14, 2011	$ 0.225

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

10. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic net earnings per common share at October 8, 2011 was based on net earnings for the 16 and 40 weeks ended October 8, 2011 of $172,449 and $437,915 (2010: $154,724 and $422,943), respectively, and a weighted average number of shares outstanding (basic) of 216,434,411 and 217,055,029 (2010: 217,437,935 and 217,431,799), respectively. The weighted average number of shares outstanding (basic) is calculated as follows:

Weighted Average Shares Outstanding (Basic)

	16 Weeks Ended		40 Weeks Ended	
	October 8 2011	October 9 2010	**October 8 2011**	October 9 2010
Issued shares, beginning of the period	**217,473,716**	217,432,898	**217,452,068**	217,431,898
Effect of share options exercised	**41,625**	8,683	**36,702**	4,169
Effect of shares repurchased	**(1,079,179)**	-	**(431,672)**	-
Effect of share purchase loans	**(1,751)**	(3,646)	**(2,069)**	(4,268)
Weighted average number of shares outstanding, end of the period	**216,434,411**	217,437,935	**217,055,029**	217,431,799

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share at October 8, 2011 was based on net earnings for the 16 and 40 weeks ended October 8, 2011 of $172,449 and $437,915 (2010: $154,724 and $422,943), respectively, and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 216,507,614 and 217,150,383 (2010: 217,545,017 and 217,530,588), respectively. The weighted average number of shares outstanding (diluted) is calculated as follows:

Weighted Average Shares Outstanding (Diluted)

	16 Weeks Ended		40 Weeks Ended	
	October 8 2011	October 9 2010	**October 8 2011**	October 9 2010
Weighted average number of shares outstanding (basic), end of the period	**216,434,411**	217,437,935	**217,055,029**	217,431,799
Potentially dilutive share options	**73,203**	107,082	**95,354**	98,789
Weighted average number of shares outstanding (diluted), end of the period	**216,507,614**	217,545,017	**217,150,383**	217,530,588

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.

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

11. SHARE-BASED PAYMENTS

The Company established stock option plans for certain employees and members of its Board of Directors, as described in Note 15 to the Company's 2010 annual financial statements and described below, and has reserved 20,000,000 common shares for issuance under the plans. Effective February 2007, non-employee directors are no longer eligible to participate in the stock option plans. The Company established a deferred share unit plan for non-employee directors, which is also described in Note 15 to the Company's 2010 annual financial statements.

The Company uses the fair value method to account for stock options issued under employee and director stock option programs. The fair value of each option is established on the date of the grant using the Black-Scholes option-pricing model.

During the 16 and 40 weeks ended October 8, 2011 and October 9, 2010, the Company recognized the following compensation expense or reversal of compensation expense associated with stock options issued under the employee and director plans in operating and administrative expenses:

	16 Weeks Ended		40 Weeks Ended	
	October 8	October 9	**October 8**	October 9
Net expenses (reversal) associated with:	**2011**	2010	**2011**	2010
Options granted in 2006	$ **-**	$ 124	$ **(921)**	$ 346
Options granted in 2010	**48**	369	**(673)**	921
Options granted in 2011	**80**	-	**200**	-
Total net expenses (reversal) recognized in operating and administrative expenses	$ **128**	$ 493	$ **(1,394)**	$ 1,267

Included in the amounts above is a reversal of compensation expense of $nil and $1,715 (2010: $nil and $nil), respectively, the latter 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.

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

11. SHARE-BASED PAYMENTS (continued)

The following is a summary of the status of the employee stock option plan and changes to it during the 16 and 40 weeks ended:

		October 8 2011		October 9 2010
	Options on common shares	**Weighted average exercise price**	Options on common shares	Weighted average exercise price per share
Outstanding, beginning of period	803,492	$ 39.53	541,542	$ 36.59
Granted	83,312	40.81	282,120	44.09
Exercised	(98,648)	10.87	(20,170)	24.54
Forfeited/cancelled including repurchased	(566,072)	45.38	-	-
Outstanding, end of period	222,084	$ 37.83	803,492	$ 39.53
Options exercisable, end of period	99,998	$ 32.36	449,270	$ 35.62

					October 8
	Outstanding Options			**Exercisable Options**	
Range of exercise price	**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**
$17.13 - $26.57	43,471	0.82	23.63	43,469	23.63
$29.30 - $36.41	29,253	2.91	34.39	29,253	34.39
$40.81 - $44.09	149,360	5.83	42.61	27,276	44.09
	222,084	4.47	$ 37.83	99,998	$ 32.36

Options granted prior to the Company's 2010 financial year

Time-based options are exercisable 20% per year on the anniversary of the grant date in each of the five subsequent years. Performance-based options are exercisable 20% per year on the anniversary of the grant date in each of the five subsequent years, provided that the Company achieves specified earnings-based performance targets. Performance targets not achieved are considered to be met if the performance is achieved on a cumulative basis in subsequent years. The performance-based options become fully exercisable on the ninth anniversary of the date of grant, provided that they have not otherwise been terminated, whether or not the performance targets are achieved.

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 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 tenth anniversary of the grant date.

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

11. SHARE-BASED PAYMENTS (continued)

Options granted during the Company's 2010 and 2011 financial years

In February 2011 and 2010, the Company granted awards of time-based options under the Company's Share Incentive Plan (the "Share Plan") in respect of the Company's 2010 and 2009 fiscal years, respectively, to certain senior management, with one-third 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 during the 16 and 40 weeks ended October 8, 2011 and October 9, 2010:

	2011	2010
Fair value per unit at grant date	**$ 6.32**	$ 6.94
Share price	**$ 40.81**	$ 44.09
Exercise price	**$ 40.81**	$ 44.09
Valuation assumptions:		
Expected life	**5 years**	5 years
Expected dividends	**2.45%**	2.10%
Expected volatility (based on historical share price volatility)	**19.32%**	18.70%
Risk-free interest rate (based on government bonds)	**2.63%**	2.54%

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 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.

11. SHARE-BASED PAYMENTS (continued)

Long-term Incentive Plan

During the 16 and 40 weeks ended October 8, 2011 and October 9, 2010, the Company did not award any share units under the Company's long-term incentive plan ("LTIP"). During the 16 and 40 weeks ended October 8, 2011, the Company cancelled nil and 18,289 share units (2010: nil and nil share units), respectively, under the LTIP as a result of the departure of certain management personnel.

As at October 8, 2011, there were 84,333 share units (2010: 272,340 share units) outstanding under the LTIP.

During the 16 and 40 weeks ended October 8, 2011, the Company recognized compensation expense of $113 and $267 (2010: $717 and $1,708), respectively, associated with the LTIP share units outstanding and reversed compensation expense of $nil and $537 (2010: $nil and $nil), respectively, the latter as a result of the cancellation of previously granted share units under the LTIP.

As at October 8, 2011, the liability associated with the share units under the LTIP is recognized within accounts payable and accrued liabilities in the Company's condensed consolidated balance sheet and is carried at the market value of the Company's shares at the end of the 40-week period (2010: recognized within accounts payable and accrued liabilities and other long-term liabilities).

The Company entered into a cash-settled equity forward agreement, which matures in December 2011, to limit its exposure to future price changes in the Company's share price for share unit awards.

A percentage of the equity forward derivatives, related to unearned share units under the LTIP, has been designated as a hedge.

Restricted Share Unit Plan

In February 2011 and 2010, the Company made grants of restricted share units ("RSUs") in respect of the 2010 and 2009 fiscal years, respectively, 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 16 and 40 weeks ended October 8, 2011, the Company awarded nil and 193,474 RSUs (2010: nil and 350,384 RSUs), respectively, at a grant date fair value of $40.81 (2010: $44.09), which vest 100% after three years. Full vesting of RSUs will be phased in for employees who received an award under the Company's LTIP in respect of a fiscal year prior to the Company's 2009 fiscal year.

During the 16 and 40 weeks ended October 8, 2011, the Company cancelled nil and 80,537 RSUs (2010: nil and nil RSUs), respectively, as a result of the departure of certain management personnel.

As at October 8, 2011, there were 384,090 RSUs outstanding (2010: 326,117 RSUs).

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

11. SHARE-BASED PAYMENTS (continued)

During the 16 and 40 weeks ended October 8, 2011, the Company recognized compensation expense of $1,476 and $3,806 (2010: $2,657 and $6,783), respectively, associated with the RSUs granted during the year and reversed compensation expense of $nil and $1,428 (2010: $nil and $nil), respectively, the latter as a result of the cancellation of previously granted RSUs.

As at October 8, 2011 and October 9, 2010, the liability associated with the RSUs is recognized within other long-term liabilities in the Company's condensed consolidated balance sheets and is carried at the market value of the Company's shares at the end of the respective 40-week periods.

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. These agreements mature in December 2012 and 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

	16 Weeks Ended		40 Weeks Ended	
	October 8 2011	October 9 2010	**October 8 2011**	October 9 2010
Accounts receivable	**$ (24,586)**	$ 39,734	**$ (5,451)**	$ 28,889
Inventory	**(81,296)**	(46,316)	**(25,960)**	(23,223)
Prepaid expenses	**(5,652)**	849	**6,382**	16,239
Accounts payable and accrued liabilities	**50,231**	(60,423)	**(39,270)**	(58,814)
	$ (61,303)	$ (66,156)	**$ (64,299)**	$ (36,909)

13. EXPLANATION OF TRANSITION TO IFRS

As stated in Note 2(a) to these condensed consolidated financial statements, the Company adopted IFRS effective January 3, 2010. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles "previous GAAP"). The Company's financial statements for the financial year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements.

The accounting policies set out in Note 3 to the Company's first quarter interim condensed consolidated financial statements as at and for the 12 weeks ended March 26, 2011 have been applied in preparing the interim condensed consolidated financial statements for the 16 and 40 weeks ended October 8, 2011, the comparative information presented in these financial statements for the financial year ended January 1, 2011, for the 16 and 40 weeks ended October 9, 2010 and in the preparation of an opening IFRS balance sheet at January 3, 2010 (the Company's date of transition). In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian GAAP based on IFRS 1, "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"), elections and exceptions and IFRS policy choices. The Company will ultimately prepare its opening IFRS balance sheet and financial statements for 2010 and 2011 by applying existing IFRS with an effective date of December 31, 2011. Accordingly, the opening IFRS balance sheet and financial statements for 2010 and 2011 may differ from these financial statements.

The Company has provided a detailed explanation of the impacts of this transition in Note 13 of the Company's first quarter interim condensed consolidated financial statements as at and for the 12 weeks ended March 26, 2011 ("Note 13"). Note 13 includes reconciliations of the Company's balance sheet and shareholders' equity from previous 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".

An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows as at October 9, 2010 and for the 16 and 40 weeks ended October 9, 2010 is set out in the following tables and the notes that accompany the tables.

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of Consolidated Statement of Earnings for 16 weeks ended October 9, 2010

	Note	Previous GAAP	Presentation Adjustment from Previous GAAP to IFRS	Effect of transition to IFRS								IFRS
				Shoppers Optimum® Loyalty Card Program	Rent Expense during the Fixturing Period	Impairment of Store Assets	Sale-leaseback Transactions	Financing Leases Classification	Employee Benefits - Ongoing Recognition of Pension Expense	Business Combinations	Income Taxes	
Sales	a)i) $	3,092,575 $	- $	(45,146) $	- $	- $	- $	- $	- $	- $	- $	3,047,429
Cost of goods sold and other operating expenses		(2,760,764)	2,760,764	-	-	-	-	-	-	-	-	-
Cost of goods sold	a)i)	-	(1,933,294)	42,253	-	-	-	-	-	-	-	(1,891,041)
Gross profit		331,811	827,470	(2,893)	-	-	-	-	-	-	-	1,156,388
Amortization		(87,443)	87,443	-	-	-	-	-	-	-	-	-
Operating and administrative expenses	a)ii); a)iii); a)iv); a)v); a)vi)	-	(914,913)	-	(3,579)	595	(822)	1,259	(18)	(38)	-	(917,516)
Operating income		244,368	-	(2,893)	(3,579)	595	(822)	1,259	(18)	(38)	-	238,872
Interest expense		(17,595)	17,595	-	-	-	-	-	-	-	-	-
Finance expenses	a)iv)	-	(17,595)	-	-	-	-	(1,464)	-	-	-	(19,059)
Finance expenses		(17,595)	-	-	-	-	-	(1,464)	-	-	-	(19,059)
Earnings before income taxes		226,773	-	(2,893)	(3,579)	595	(822)	(205)	(18)	(38)	-	219,813
Income taxes	a)											
Current		(68,600)	-	-	-	-	-	-	-	-	-	(68,600)
Deferred		1,135	-	814	849	(158)	162	49	77	11	572	3,511
		(67,465)	-	814	849	(158)	162	49	77	11	572	(65,089)
Net earnings	$	159,308 $	- $	(2,079) $	(2,730) $	437 $	(660) $	(156) $	59 $	(27) $	572 $	154,724
Net earnings per common share												
Basic	$	0.73									$	0.71
Diluted	$	0.73									$	0.71

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of Comprehensive Income for the 16 weeks ended October 9, 2010

	Previous GAAP	Effect of transition to IFRS	IFRS
Net earnings	**$ 159,308**	**$ (4,584)**	**$ 154,724**
Other comprehensive income, net of tax:			
Effective portion of changes in fair value hedges on interest rate derivatives (net of tax of $155)	349	-	349
Effective portion of changes in fair value hedges on equity forward derivatives (net of tax of $488)	1,236	-	1,236
Net change in fair value of hedges on interest rate and equity forward derivatives transferred to profit or loss (net of tax of $5)	12	-	12
Other comprehensive income, net of tax	1,597	-	1,597
Total comprehensive income for the 16 weeks ended October 9, 2010	$ 160,905	$ (4,584)	$ 156,321

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of Consolidated Statement of Earnings for 40 weeks ended October 9, 2010

	Note	Previous GAAP	Presentation Adjustment from Previous GAAP to IFRS	Effect of transition to IFRS								IFRS
				Shoppers Optimum® Loyalty Card Program	Rent Expense during the Fixturing Period	Impairment of Store Assets	Sale-leaseback Transactions	Financing Leases Classification	Employee Benefits - Ongoing Recognition of Pension Expense	Business Combinations	Income Taxes	
Sales	a)i) $	7,816,213 $	- $	(123,464) $	- $	- $	- $	- $	- $	- $	- $	7,692,749
Cost of goods sold and other operating expenses		(6,956,848)	6,956,848	-	-	-	-	-	-	-	-	-
Cost of goods sold	a)i)	-	(4,902,674)	120,399	-	-	-	-	-	-	-	(4,782,275)
Gross profit		859,365	2,054,174	(3,065)	-	-	-	-	-	-	-	2,910,474
Amortization		(218,751)	218,751	-	-	-	-	-	-	-	-	-
Operating and administrative expenses	a)ii); a)iii); a)iv); a)v); a)vi)	-	(2,272,925)	-	(5,738)	(456)	11,403	3,034	(45)	(38)	-	(2,264,765)
Operating income		640,614	-	(3,065)	(5,738)	(456)	11,403	3,034	(45)	(38)	-	645,709
Interest expense		(43,438)	43,438	-	-	-	-	-	-	-	-	-
Finance expenses	a)iv)	-	(43,438)	-	-	-	-	(3,495)	-	-	-	(46,933)
Finance expenses		(43,438)	-	-	-	-	-	(461)	-	-	-	(46,933)
Earnings before income taxes		597,176	-	(3,065)	(5,738)	(456)	11,403	(461)	(45)	(38)	-	598,776
Income taxes	a)											
Current		(177,640)	-	-	-	-	-	-	-	-	-	(177,640)
Deferred		(19)	-	862	1,303	362	(1,988)	(523)	(221)	11	2,020	1,807
		(177,659)	-	862	1,303	362	(1,988)	(523)	(221)	11	2,020	(175,833)
Net earnings	$	419,517 $	- $	(2,203) $	(4,435) $	(94) $	9,415 $	(984) $	(266) $	(27) $	2,020 $	422,943
Net earnings per common share												
Basic	$	1.93									$	1.95
Diluted	$	1.93									$	1.94

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of Comprehensive Income for the 40 weeks ended October 9, 2010

	Previous GAAP	Effect of transition to IFRS	IFRS
Net earnings	**$ 419,517**	**$ 3,426**	**$ 422,943**
Other comprehensive loss, net of tax:			
Effective portion of changes in fair value hedges on interest rate derivatives (net of tax of $438)	922	-	922
Effective portion of changes in fair value hedges on equity forward derivatives (net of tax of $413)	(1,045)	-	(1,045)
Net change in fair value of hedges on interest rate and equity forward derivatives transferred to profit or loss (net of tax of $12)	30	-	30
Other comprehensive loss, net of tax	(93)	-	(93)
Total comprehensive income for the 40 weeks ended October 9, 2010	$ 419,424	$ 3,426	$ 422,850

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of Shareholders' equity as at October 9, 2010

	Note	Previous GAAP	Effect of transition to IFRS								IFRS
			Shoppers Optimum® Loyalty Card Program	Rent Expense during the Fixturing Period	Impairment of Store Assets	Sale-leaseback Transactions	Financing Leases Classification	Employee Benefits - Ongoing Recognition of Pension Expense	Business Combinations	Income Taxes	
Share capital		$ 1,520,558	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,520,558
Contributed surplus		11,377	-	-	-	-	-	-	-	-	11,377
Accumulated other comprehensive loss		(1,218)	-	-	-	-	-	-	-	-	(1,218)
Retained earnings	a)	2,569,837	(13,309)	(38,961)	(16,282)	15,334	(2,787)	(6,199)	(27)	(58,657)	2,448,949
Total shareholders' equity		$ 4,100,554	$ (13,309)	$ (38,961)	$ (16,282)	$ 15,334	$ (2,787)	$ (6,199)	$ (27)	$ (58,657)	$ 3,979,666

SHOPPERS DRUG MART CORPORATION
Notes to the Condensed Consolidated Financial Statements
(unaudited)
(in thousands of Canadian dollars, except per share data)

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of consolidated balance sheet as at January 1, 2011

	Note	Previous GAAP	Presentation Adjustment from Previous GAAP to IFRS	Effect of Transition to IFRS: Shoppers Optimum® Loyalty Card Program	Rent Expense during the Fixturing Period	Impairment of Store Assets	Sale-leaseback Transactions	Financing Leases Classification	Employee Benefits - Ongoing Recognition of Pension Expense	Business Combinations	Income Taxes	IFRS
Current assets												
Cash		$ 64,354	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 64,354
Accounts receivable		432,089	-	-	-	-	-	-	-	-	-	432,089
Inventory		1,957,525	-	-	-	-	-	-	-	-	-	1,957,525
Income taxes recoverable	a)i); a)ii); a)iii); a)iv); a)v); a)vi)	20,384	-	-	-	-	-	-	-	-	-	20,384
Future income taxes	b)ix)	80,476	-	-	-	-	-	-	-	-	(80,476)	-
Prepaid expenses and deposits		68,468	-	-	-	-	-	-	-	-	-	68,468
Total current assets		2,623,296	-	-	-	-	-	-	-	-	(80,476)	2,542,820
Non-current assets												
Property and equipment	a)iii); a)iv); a)v)	1,709,656	-	-	(49,726)	(28,561)	-	58,741	-	-	-	1,690,110
Goodwill	a)vii)	2,493,146	-	-	-	-	-	-	-	(38)	-	2,493,108
Intangible assets		272,217	-	-	-	-	-	-	-	-	-	272,217
Other assets	a)vi)	23,895	-	-	-	-	-	-	(4,217)	-	-	19,678
Deferred tax assets	a)ix)	-	-	-	-	-	-	-	-	-	26,264	26,264
Total non-current assets		4,498,914	-	-	(49,726)	(28,561)	-	58,741	(4,217)	(38)	26,264	4,501,377
Total assets		$ 7,122,210	$ -	$ -	$ (49,726)	$ (28,561)	$ -	$ 58,741	$ (4,217)	$ (38)	$ (54,212)	$ 7,044,197
Liabilities												
Bank indebtedness		$ 209,013	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 209,013
Commercial paper		127,828	-	-	-	-	-	-	-	-	-	127,828
Accounts payable and accrued liabilitie	a)i); a)iv)	981,491	-	19,735	-	-	-	1,580	-	-	-	1,002,806
Dividends payable		48,927	-	-	-	-	-	-	-	-	-	48,927
Associate interest	b)	-	138,993	-	-	-	-	-	-	-	-	138,993
Total current liabilities		1,367,259	-	19,735	-	-	-	1,580	-	-	-	1,527,567
Long-term debt		943,412	-	-	-	-	-	-	-	-	-	943,412
Other long-term liabilities	a)ii); a)iv); a)vi)	399,651	-	-	-	-	(18,242)	61,079	15,119	-	-	457,607
Deferred tax liabilities	a)	48,992	-	(5,551)	(12,775)	(7,129)	3,446	(1,243)	(5,081)	(11)	2,416	23,064
Total non-current liabilities		1,392,055	-	(5,551)	(12,775)	(7,129)	(14,796)	59,836	10,038	(11)	2,416	1,424,083
Total liabilities		2,759,314	-	14,184	(12,775)	(7,129)	(14,796)	61,416	10,038	(11)	2,416	2,951,650
Associate interest	b)	138,993	(138,993)	-	-	-	-	-	-	-	-	-
Shareholders' equity												
Share capital		1,520,558	-	-	-	-	-	-	-	-	-	1,520,558
Contributed surplus		11,702	-	-	-	-	-	-	-	-	-	11,702
Accumulated other comprehensive loss	a)vi)	(493)	-	-	-	-	-	-	(8,150)	-	-	(8,643)
Retained earnings	a)	2,692,136	-	(14,184)	(36,951)	(21,432)	14,796	(2,675)	(6,105)	(27)	(56,628)	2,568,930
Total shareholders' equity		4,223,903	-	(14,184)	(36,951)	(21,432)	14,796	(2,675)	(14,255)	(27)	(56,628)	4,092,547
Total liabilities and shareholders' equity		$ 7,122,210	$ -	$ -	$ (49,726)	$ (28,561)	$ -	$ 58,741	$ (4,217)	$ (38)	$ (54,212)	$ 7,044,197

SHOPPERS DRUG MART CORPORATION
Notes to the Condensed Consolidated Financial Statements
(unaudited)
(in thousands of Canadian dollars, except per share data)

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of consolidated balance sheet as at October 9, 2010

	Note	Previous GAAP	Presentation Adjustment from Previous GAAP to IFRS	Effect of Transition to IFRS								IFRS
				Shoppers Optimum® Loyalty Card Program	Rent Expense during the Fixturing Period	Impairment of Store Assets	Sale-leaseback Transactions	Financing Leases Classification	Employee Benefits - Ongoing Recognition of Pension Expense	Business Combinations	Income Taxes	
Current assets												
Cash		$ 49,873	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 49,873
Accounts receivable	a)vii)	442,046	-	-	-	-	-	-	-	-	-	442,046
Inventory		1,876,693	-	-	-	-	-	-	-	-	-	1,876,693
Income taxes recoverable	a)i); a)ii); a)iii); a)iv); a)v); a)vi); a)ix)	14,382	-	-	-	-	-	-	-	-	-	14,382
Future income taxes	a)ix)	85,123	-	-	-	-	-	-	-	-	(85,123)	-
Prepaid expenses and deposits		56,508	-	-	-	-	-	-	-	-	-	56,508
Total current assets		2,524,625	-	-	-	-	-	-	-	-	(85,123)	2,439,502
Non-current assets												
Property and equipment	a)ii); a)iii); a)iv); a)v); a)vii)	1,669,412	-	-	(53,900)	(21,840)	-	55,619	-	-	-	1,649,291
Goodwill	a)vii)	2,493,075	-	-	-	-	-	-	-	(38)	-	2,493,037
Intangible assets		255,150	-	-	-	-	-	-	-	-	-	255,150
Other assets		21,476	-	-	-	-	-	-	(3,517)	-	-	17,959
Deferred tax assets	a)ix)	-	-	-	-	-	-	-	-	-	27,948	27,948
Total non-current assets		4,439,113	-	-	(53,900)	(21,840)	-	55,619	(3,517)	(38)	27,948	4,443,385
Total assets		$ 6,963,738	$ -	$ -	$ (53,900)	$ (21,840)	$ -	$ 55,619	$ (3,517)	$ (38)	$ (57,175)	$ 6,882,887
Liabilities												
Bank indebtedness		$ 278,894	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 278,894
Commercial paper		128,726	-	-	-	-	-	-	-	-	-	128,726
Accounts payable and accrued liabilities	a)i); a)iv)	899,613	-	18,518	-	-	-	1,536	-	-	-	919,667
Dividends payable		48,927	-	-	-	-	-	-	-	-	-	48,927
Associate interest	b)	-	127,082	-	-	-	-	-	-	-	-	127,082
Total current liabilities		1,356,160	-	18,518	-	-	-	1,536	-	-	-	1,503,296
Long-term debt		946,218	-	-	-	-	-	-	-	-	-	946,218
Other long-term liabilities	a)ii); a)iii); a)iv); a)vi)	391,819	-	-	(1,382)	-	(18,739)	57,831	4,751	-	-	434,280
Deferred tax liabilities	a); a)ix)	41,905	-	(5,209)	(13,557)	(5,558)	3,405	(961)	(2,069)	(11)	1,482	19,427
Total non-current liabilities		1,379,942	-	(5,209)	(14,939)	(5,558)	(15,334)	56,870	2,682	(11)	1,482	1,399,925
Total liabilities		2,736,102	-	13,309	(14,939)	(5,558)	(15,334)	58,406	2,682	(11)	1,482	2,903,221
Associate interest	b)	127,082	(127,082)	-	-	-	-	-	-	-	-	-
Shareholders' Equity												
Share capital		1,520,558	-	-	-	-	-	-	-	-	-	1,520,558
Contributed surplus		11,377	-	-	-	-	-	-	-	-	-	11,377
Accumulated other comprehensive loss		(1,218)	-	-	-	-	-	-	-	-	-	(1,218)
Retained earnings	a)i); a)ii); a)iii); a)iv); a)v); a)vi); a)ix)	2,569,837	-	(13,309)	(38,961)	(16,282)	15,334	(2,787)	(6,199)	(27)	(58,657)	2,448,949
Total equity		4,100,554	-	(13,309)	(38,961)	(16,282)	15,334	(2,787)	(6,199)	(27)	(58,657)	3,979,666
Total liabilities and equity		$ 6,963,738	$ -	$ -	$ (53,900)	$ (21,840)	$ -	$ 55,619	$ (3,517)	$ (38)	$ (57,175)	$ 6,882,887

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Notes to the Reconciliations

a) Financial Impacts of Adopting IFRS

i) Revenue Recognition – Optimum® Loyalty Card Program

Under previous GAAP, the Company recorded an expense and established a liability for future redemptions when points were earned by a program member by multiplying the number of points issued by the estimated cost per point. When points were redeemed, the actual costs of the redemptions were charged against the liability account. Points were valued at cost. Under IFRS, the Company defers a portion of the revenue associated with the sales transaction equivalent to the fair value of the points issued to the customer (retail value of the points) when points are earned by a program member. When points are redeemed, the redemption value of the award is charged against the deferred revenue balance and the revenue is recognized. Points are valued at fair value.

The following is the impact of adopting IFRIC 13, "Customer Loyalty Programmes" ("IFRIC 13"), on the Company's earnings for the 16 and 40 weeks ended October 9, 2010 and the Company's financial position as at January 1, 2011 and October 9, 2010:

Net earnings impact		**16 weeks ended October 9, 2010**		**40 weeks ended October 9, 2010**
Sales	$	(45,146)	$	(123,464)
Cost of goods sold		42,253		120,399
Gross profit		(2,893)		(3,065)
Income tax expense		814		862
Decrease in net earnings	$	(2,079)	$	(2,203)

		As at		
Balance sheet impact		**January 1, 2011**		**October 9, 2010**
Accounts payable and accrued liabilities	$	19,735	$	18,518
Deferred tax liabilities		(5,551)		(5,209)
Decrease in retained earnings	$	(14,184)	$	(13,309)

ii) Sale-leaseback Transactions

Under previous GAAP, the Company had deferred gains on sale-leaseback transactions and was recognizing the gains in earnings over the lease terms. Any losses were recognized in earnings immediately. Under IFRS, when sale-leaseback transactions result in operating leases, gains or losses on sale-leaseback transactions that are considered to be conducted at fair value are recognized in earnings immediately. When sale-leaseback transactions result in financing leases, or if the gains or losses on sale-leaseback transactions arise on transactions that are not considered to have been transacted at fair value, the gains are deferred and recognized over the shorter of the lease term and the estimated useful life of the leased asset, while losses are recognized in earnings immediately.

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

The following is the impact of adopting IAS 17, "Leases" ("IAS 17"), on the Company's earnings for the 16 and 40 weeks ended October 9, 2010 and the Company's financial position as at January 1, 2011 and October 9, 2010 related to the Company's sale-leaseback transactions:

Net earnings impact		**16 weeks ended October 9, 2010**		**40 weeks ended October 9, 2010**
Operating and administrative expenses	$	(822)	$	11,403
Income tax expense		162		(1,988)
(Decrease) increase in net earnings	$	(660)	$	9,415

Balance sheet impact		**As at January 1, 2011**		**October 9, 2010**
Other long-term liabilities	$	(18,242)	$	(18,739)
Deferred tax liabilities		3,446		3,405
Increase in retained earnings	$	14,796	$	15,334

iii) Rent Expense during the Fixturing Period

Under previous GAAP, the Company capitalized rent expense incurred during a store's fixturing period to leasehold improvements in property and equipment. Under IFRS, rent expense during the fixturing period is no longer capitalized but, instead, is treated as occupancy expense, which is presented as part of operating and administrative expenses in the consolidated statements of earnings in the period in which the rent expense is incurred.

The following is the impact of adopting IAS 16, "Property, plant and equipment" ("IAS 16"), on the Company's earnings for the 16 and 40 weeks ended October 9, 2010 and the Company's financial position as at January 1, 2011 and October 9, 2010:

Net earnings impact		**16 weeks ended October 9, 2010**		**40 weeks ended October 9, 2010**
Operating and administrative expenses	$	(3,579)	$	(5,738)
Income tax expense		849		1,303
Decrease in net earnings	$	(2,730)	$	(4,435)

Balance sheet impact		**As at January 1, 2011**		**October 9, 2010**
Property and equipment	$	(49,726)	$	(53,900)
Other long-term liabilities		-		(1,382)
Deferred tax liabilities		(12,775)		(13,557)
Decrease in retained earnings	$	(36,951)	$	(38,961)

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

iv) Financing Lease Classification

Under previous GAAP, leases for which substantially all the benefits and risks of ownership were transferred to the Company based on certain criteria were recorded as capital leases and classified as property and equipment, accounts payable and accrued liabilities, and other long-term liabilities. Capital leases are referred to as financing leases under IFRS. Minimum lease payments were allocated between the land and building elements of a lease based on the fair value of the land and building in aggregate. All other leases were classified as operating leases under which minimum rent, including scheduled escalations, were expensed on a straight-line basis over the term of the lease, including any rent free periods. Under IFRS, minimum lease payments are allocated between the land and building elements of a lease in proportion to the relative fair values of the leasehold interests in the land and building. IFRS also provides additional indicators of a financing lease that were not provided under previous GAAP.

The following is the impact of adopting IAS 17, "Leases" ("IAS 17"), on the Company's earnings for the 16 and 40 weeks ended October 9, 2010 and the Company's financial position as at January 1, 2011 and October 9, 2010 related to the Company's lease classification:

Net earnings impact		**16 weeks ended October 9, 2010**		**40 weeks ended October 9, 2010**
Operating and administrative expenses	$	1,259	$	3,034
Finance expenses		(1,464)		(3,495)
Income tax expense		49		(523)
Decrease in net earnings	$	(156)	$	(984)

Balance sheet impact		**January 1, 2011**		**As at October 9, 2010**
Property and equipment	$	58,741	$	55,619
Accounts payable and accrued liabilities		1,580		1,536
Other long-term liabilities		61,079		57,831
Deferred tax liabilities		(1,243)		(961)
Decrease in retained earnings	$	(2,675)	$	(2,787)

v) Impairment of Store Assets

Under previous GAAP, the Company tested long-lived assets or asset groups for impairment when events or circumstances indicated their carrying value exceeded the sum of the undiscounted cash flows expected from their use and eventual disposal. An impairment loss was measured as the amount by which the carrying values of long-lived assets (or asset groups) exceeded their fair values. The Company reviewed long-lived assets for impairment at least annually. Under IFRS, long-lived assets or asset groups are tested for impairment at the cash-generating unit level. A cash-generating unit ("CGU") is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash inflows from other assets or group of assets. The Company has determined for parts of the business that the CGU level is different from the asset groupings previously used under GAAP.

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

Under IFRS, the Company reviewed its long-lived assets for indicators of impairment at the CGU level and determined that a test for impairment was necessary on assets in certain of its newer stores. The test resulted in the identification of an impairment loss under IFRS as at January 3, 2010. Accordingly, the Company has taken an opening balance sheet impairment charge to retained earnings. Further impairments associated with these same stores were identified during 2010 and charged to net earnings during 2010.

The following is the impact of adopting IAS 36, "Impairment of Assets" ("IAS 36"), on the Company's earnings for the 16 and 40 weeks ended October 9, 2010 and the Company's financial position as at January 1, 2011 and October 9, 2010:

Net earnings impact		16 weeks ended October 9, 2010		40 weeks ended October 9, 2010
Operating and administrative expenses	$	595	$	(456)
Income tax expense		(158)		362
Increase (decrease) in net earnings	$	437	$	(94)

				As at
Balance sheet impact		**January 1, 2011**		**October 9, 2010**
Property and equipment	$	(28,561)	$	(21,840)
Deferred tax liabilities		(7,129)		(5,558)
Decrease in retained earnings	$	(21,432)	$	(16,282)

vi) Employee Benefits – Ongoing Recognition of Pension Expense

Under previous GAAP, the Company recognized as an expense the excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets over the average remaining service period of active employees (the "corridor approach"). The Company has elected under IFRS 1 to recognize the cumulative actuarial gains and losses for all defined benefit plans, as determined under the Company's previous GAAP, in retained earnings. As a result, all previously unrecognized actuarial gains and losses and unrecognized plan amendments as at January 3, 2010 have been recognized in retained earnings in the opening IFRS balance sheet. As well, the impact of using the corridor approach under previous GAAP in the Company's 2010 financial year has been adjusted to reflect its policy under IFRS to recognize actuarial gains and losses immediately in other comprehensive income in the comparative IFRS statement of comprehensive income.

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

The following is the impact of electing under IFRS 1 to recognize previously unrecognized actuarial gains and losses on defined benefit pension plans in retained earnings at the date of transition and adopting IAS 19, "Employee Benefits" ("IAS 19"), on the Company's net earnings and other comprehensive income for the 16 and 40 weeks ended October 9, 2010 and the Company's financial position as at January 1, 2011 and October 9, 2010:

Net earnings impact	**16 weeks ended October 9, 2010**	**40 weeks ended October 9, 2010**
Operating and administrative expenses	$ (18)	$ (45)
Income tax expense	77	(221)
Decrease in net earnings	$ 59	$ (266)

		As at
Balance sheet impact	**January 1, 2011**	**October 9, 2010**
Other assets	$ (4,217)	$ (3,517)
Other long-term liabilities	15,119	4,751
Deferred tax liabilities	(5,081)	(2,069)
Decrease in retained earnings	$ (6,105)	$ (6,199)

vii) Business Combinations

The Company has elected under IFRS 1 to apply IFRS 3, "Business Combinations" ("IFRS 3"), prospectively to business combinations that occurred on or after January 3, 2010. As a result, transaction costs that the Company capitalized in its 2010 financial year of $38 under the Company's previous GAAP have been expensed under IFRS.

The following is the impact of adopting IFRS 3 on the Company's earnings for the 16 and 40 weeks ended October 9, 2010, as a result of transaction costs associated with business acquisitions transacted during the financial year ended January 1, 2011 that had been capitalized under previous GAAP:

Net earnings impact	**16 weeks ended October 9, 2010**	**40 weeks ended October 9, 2010**
Operating and administrative expenses	$ (38)	$ (38)
Income tax expense	11	11
Decrease in net earnings	$ (27)	$ (27)

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

The following is the impact of adopting IFRS 3 on the Company's financial position as at January 1, 2011 and October 9, 2010, as a result of restating the purchase price allocations of business acquisitions as at the acquisition date when purchase price adjustments were recorded in subsequent reporting periods under previous GAAP:

		As at	
Balance sheet impact		**January 1, 2011**	**October 9, 2010**
Goodwill	$	(38)	$ (38)
Deferred tax liabilities		(11)	(11)
Decrease in retained earnings	$	(27)	$ (27)

There were no increases in provisions as at January 1, 2011 and October 9, 2010 to reflect assumed contingent liabilities at fair value at the date of acquisition.

As a condition to making the election under IFRS 1, goodwill relating to business combinations that occurred prior to January 3, 2010 must be tested for impairment, even though no impairment indicators were identified. At the date of transition, the Company performed an impairment test on goodwill and no impairment was identified.

viii) Deferred Tax Assets and Deferred Tax Liabilities

Under previous GAAP, the Company recognized a deferred (future income) tax asset on the temporary difference between the cost base and the tax base of inventory. This temporary difference related primarily to consideration received from vendors which is classified as a reduction to the cost of inventory on consolidation. Under IFRS, this adjustment is not considered a temporary difference and, as such, there is no deferred tax asset.

Under previous GAAP, deferred tax assets and liabilities were presented as current or long-term on the consolidated balance sheets in accordance with the assets or liabilities that gave rise to the deferred tax balances. Under IFRS, deferred tax assets and liabilities may not be presented as current. The Company has reclassified the deferred taxes into non-current assets and liabilities based on the net asset and liability positions of the entities that have generated the balances.

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

13. EXPLANATION OF TRANSITION TO IFRS (continued)

The following is the impact of adopting IAS 12, "Income Taxes" ("IAS 12"), on the Company's earnings for the 16 and 40 weeks ended October 9, 2010 and the Company's financial position as at January 1, 2011 and October 9, 2010:

Net earnings impact		16 weeks ended October 9, 2010		40 weeks ended October 9, 2010
Income tax expense	$	572	$	2,020
Increase in net earnings	$	572	$	2,020

Balance sheet impact		January 1, 2011		As at October 9, 2010
Future income tax assets	$	(80,476)	$	(85,123)
Deferred tax assets		26,264		27,948
Future income tax liabilities		(48,992)		(41,905)
Deferred tax liabilities		51,408		43,387
Decrease in retained earnings	$	(56,628)	$	(58,657)

b) Presentation Impacts of Adopting IFRS

Associate Interest

Under previous GAAP, minority interest that arises as part of the consolidation process was presented separately on the balance sheet outside of equity. The consolidation of the stores under IAS 27 was determined based on the concept of control under IAS 27, considering the agreements in place with Associates (the "Associate Agreements"). The Company does not have any direct or indirect shareholdings in the Associates' corporations. The Associates have an investment in the net assets of their business that is included in the Company's consolidated balance sheets ("Associate interest"). The Company assessed the underlying nature of the Associate interest balance and determined that Associate interest has the characteristics of an obligation under the Associate Agreements. The Company does not expect to pay the amount recognized as a current liability within the next 12 months to its Associates due to the Company's long-term relationship with its Associates and the Company's past experience. However, the contractual ability to terminate an Associate Agreement means that the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period and therefore, under IFRS, the Associate interest balance is presented within current liabilities.

The impact of adopting IAS 27 on the Company's financial position is the removal of Associate interest from the mezzanine area on the consolidated balance sheets between liabilities and equity and, instead, presenting Associate interest within current liabilities on the consolidated balance sheets as at January 1, 2011 and October 9, 2010.

		January 1, 2011		As at October 9, 2010
Associate interest	$	138,993	$	127,082

13. EXPLANATION OF TRANSITION TO IFRS (continued)

c) Adjustments to the consolidated statement of cash flows for the 16 and 40 weeks ended October 9, 2010

There are no material differences between the consolidated statements of cash flows presented under IFRS and the consolidated statements of cash flows presented under previous GAAP.

14. SUBSEQUENT EVENTS

On October 27, 2011, the Company amended its previously existing $750,000 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 $725,000, to 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 $500,000 commercial paper program.

On November 9, 2011, the Board of Directors declared a dividend of 25 cents per common share payable January 13, 2012 to shareholders of record as of the close of business on December 30, 2011.

These condensed consolidated financial statements were authorized for issue by the Board of Directors on November 9, 2011.

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

Earnings Coverage Exhibit to the Condensed Consolidated Financial Statements

52 weeks ended October 8, 2011		
Earnings coverage on long-term debt obligations	18.12	times

The earnings coverage ratio on long-term debt (including any current portion) is equal to earnings before finance expense and income tax expense, divided by finance expense on long-term debt (including any current portion). Finance expense excludes any amounts in respect of amortization and includes finance expenses capitalized to property and equipment.