Shoppers Drug Mart Corporation

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

		12 Weeks Ended		24 Weeks Ended	
	Note	**June 16, 2012**	June 18, 2011	**June 16, 2012**	June 18, 2011
Sales		**$ 2,456,694**	$ 2,394,145	**$ 4,851,135**	$ 4,741,166
Cost of goods sold	5	**(1,494,110)**	(1,462,858)	**(2,969,710)**	(2,922,764)
Gross profit		**962,584**	931,287	**1,881,425**	1,818,402
Operating and administrative expenses	6,7	**(751,655)**	(711,037)	**(1,495,533)**	(1,420,260)
Operating income		**210,929**	220,250	**385,892**	398,142
Finance expenses		**(13,355)**	(14,798)	**(26,647)**	(29,439)
Earnings before income taxes		**197,574**	205,452	**359,245**	368,703
Income taxes					
Current		**(54,152)**	(53,925)	**(120,765)**	(98,356)
Deferred		**2,289**	(3,602)	**26,463**	(4,881)
		(51,863)	(57,527)	**(94,302)**	(103,237)
Net earnings		**$ 145,711**	$ 147,925	**$ 264,943**	$ 265,466
Net earnings per common share					
Basic	10	**$ 0.70**	$ 0.68	**$ 1.26**	$ 1.22
Diluted	10	**$ 0.70**	$ 0.68	**$ 1.26**	$ 1.22
Weighted average common shares outstanding (millions):					
Basic	10	**209.5**	217.5	**210.7**	217.5
Diluted	10	**209.5**	217.6	**210.7**	217.6
Actual common shares outstanding (millions)		**208.4**	217.5	**208.4**	217.5

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

Shoppers Drug Mart Corporation

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

	12 Weeks Ended		24 Weeks Ended	
	June 16, 2012	June 18, 2011	**June 16, 2012**	June 18, 2011
Net earnings	**$ 145,711**	$ 147,925	**$ 264,943**	$ 265,466
Other comprehensive (loss) income, net of tax				
Effective portion of changes in fair value of hedges on equity forward derivatives (net of tax of $123 and $42 (2011: $29 and $50)	**(354)**	(80)	**(121)**	(147)
Net change in fair value of hedges on equity forward derivatives transferred to earnings (net of tax of $9 and $19 (2011: $22 and $111))	**24**	56	**50**	281
Other comprehensive (loss) income, net of tax	**(330)**	(24)	**(71)**	134
Total comprehensive income	**$ 145,381**	$ 147,901	**$ 264,872**	$ 265,600

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	**June 16, 2012**	December 31, 2011	June 18, 2011
Current assets				
Cash		**$ 47,971**	$ 118,566	$ 95,644
Accounts receivable		**456,007**	493,338	412,954
Inventory		**1,991,486**	2,042,302	1,902,003
Income taxes recoverable		**-**	-	30,189
Prepaid expenses and deposits		**85,650**	41,441	56,932
Total current assets		**2,581,114**	2,695,647	2,497,722
Non-current assets				
Property and equipment		**1,753,408**	1,767,543	1,704,176
Investment property		**16,597**	16,372	13,043
Goodwill		**2,507,328**	2,499,722	2,498,495
Intangible assets		**288,236**	281,737	267,701
Other assets		**10,074**	18,214	24,471
Deferred tax assets		**21,398**	21,075	23,252
Total non-current assets		**4,597,041**	4,604,663	4,531,138
Total assets		**$ 7,178,155**	$ 7,300,310	$ 7,028,860
Current liabilities				
Bank indebtedness		**$ 271,196**	$ 172,262	$ 246,417
Commercial paper		**223,970**	-	-
Accounts payable and accrued liabilities		**955,039**	1,109,444	891,757
Income taxes payable		**15,988**	26,538	-
Dividends payable	9	**55,154**	53,119	54,368
Current portion of long-term debt		**449,529**	249,971	249,612
Provisions		**15,136**	12,024	15,725
Associate interest		**147,632**	152,880	129,260
Total current liabilities		**2,133,644**	1,776,238	1,587,139
Long-term liabilities				
Long-term debt	8	**246,769**	695,675	694,935
Other long-term liabilities		**526,903**	520,188	457,260
Provisions		**5,753**	1,701	2,186
Deferred tax liabilities		**12,921**	38,678	28,750
Total long-term liabilities		**792,346**	1,256,242	1,183,131
Total liabilities		**2,925,990**	3,032,480	2,770,270
Shareholders' equity				
Share capital	9	**1,458,561**	1,486,455	1,521,417
Treasury shares	9	**(5,877)**	(4,735)	-
Contributed surplus	11	**10,771**	10,246	9,934
Accumulated other comprehensive loss		**(30,285)**	(30,214)	(8,509)
Retained earnings		**2,818,995**	2,806,078	2,735,748
Total shareholders' equity		**4,252,165**	4,267,830	4,258,590
Total liabilities and shareholders' equity		**$ 7,178,155**	$ 7,300,310	$ 7,028,860

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

Shoppers Drug Mart Corporation

Condensed Consolidated Statements of Changes in Shareholders' Equity
(unaudited)
(in thousands of Canadian dollars)

	Note	Share Capital	Treasury Shares	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance as at December 31, 2011		$ **1,486,455**	$ **(4,735)**	$ **10,246**	$ **(30,214)**	$ **2,806,078**	$ **4,267,830**
Total comprehensive income		**-**	**-**	**-**	**(71)**	**264,943**	**264,872**
Dividends	10	**-**	**-**	**-**	**-**	**(110,934)**	**(110,934)**
Share repurchases	9, 10	**(27,817)**	**(5,877)**	**-**	**-**	**(137,167)**	**(170,861)**
Treasury shares cancelled	9	**(810)**	**4,735**	**-**	**-**	**(3,925)**	**-**
Share-based payments	12	**-**	**-**	**536**	**-**	**-**	**536**
Share options exercised	12	**723**	**-**	**(11)**	**-**	**-**	**712**
Repayment of share-purchase loans		**10**	**-**	**-**	**-**	**-**	**10**
Balance as at June 16, 2012		**$ 1,458,561**	**$ (5,877)**	**$ 10,771**	**$ (30,285)**	**$ 2,818,995**	**$ 4,252,165**
Balance as at January 1, 2011		$ 1,520,558	$ -	$ 11,702	$ (8,643)	$ 2,579,018	$ 4,102,635
Total comprehensive income		-	-	-	134	265,466	265,600
Dividends	10	-	-	-	-	(108,736)	(108,736)
Share-based payments	12	-	-	(1,522)	-	-	(1,522)
Share options exercised	12	852	-	(246)	-	-	606
Repayment of share-purchase loans		7	-	-	-	-	7
Balance as at June 18, 2011		$ 1,521,417	$ -	$ 9,934	$ (8,509)	$ 2,735,748	$ 4,258,590

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

Shoppers Drug Mart Corporation

Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands of Canadian dollars)

		12 Weeks Ended		24 Weeks Ended	
	Note	**June 16, 2012**	June 18, 2011	**June 16, 2012**	June 18, 2011
Cash flows from operating activities					
Net earnings		**$ 145,711**	$ 147,925	**$ 264,943**	$ 265,466
Adjustments for:					
Depreciation and amortization		**72,701**	67,278	**144,691**	134,338
Finance expenses		**13,355**	13,998	**26,647**	29,439
Loss on sale or disposal of property and equipment		**1,136**	1,489	**2,325**	3,631
Share-based payment transactions		**268**	97	**536**	(1,522)
Recognition and reversal of provisions, net		**8,246**	3,235	**11,664**	6,580
Other long-term liabilities		**(1,256)**	261	**(299)**	5,297
Income tax expense		**51,863**	57,527	**94,302**	103,237
		292,024	291,810	**544,809**	546,466
Net change in non-cash working capital balances	12	**68,707**	42,489	**(74,271)**	(6,158)
Provisions used		**(2,566)**	(2,033)	**(4,500)**	(3,083)
Interest paid		**(16,325)**	(15,180)	**(33,234)**	(31,361)
Income tax paid		**(57,010)**	(63,636)	**(117,521)**	(109,749)
Net cash from operating activities		**284,830**	253,450	**315,283**	396,115
Cash flows from investing activities					
Proceeds from disposition of property and equipment		**7,473**	5,241	**7,496**	5,289
Business acquisitions	4	**(5,804)**	(200)	**(12,948)**	(6,252)
Deposits		**(27,745)**	(490)	**(34,398)**	(465)
Acquisition and development of property and equipment		**(65,525)**	(79,553)	**(109,755)**	(138,458)
Acquisition and development of intangible assets		**(13,824)**	(9,998)	**(25,366)**	(16,314)
Other assets		**1,300**	(892)	**788**	(4,793)
Net cash used in investing activities		**(104,125)**	(85,892)	**(174,183)**	(160,993)
Cash flows from financing activities					
Repurchase of own shares	9	**(90,655)**	-	**(169,719)**	-
Proceeds from exercise of share options		**712**	(4)	**712**	606
Repayment of share-purchase loans		**-**	-	**10**	7
Bank indebtedness, net		**25,636**	22,631	**98,897**	37,450
(Repayment) issuance of commercial paper, net	8	**(64,000)**	(107,000)	**224,000**	(128,000)
Repayment of long-term debt	8	**-**	-	**(250,000)**	-
Revolving term debt, net		**-**	-	**(152)**	-
Repayment of financing lease obligations		**(664)**	(462)	**(1,296)**	(867)
Associate interest		**(358)**	(2,455)	**(5,248)**	(9,733)
Dividends paid	9	**(55,780)**	(54,368)	**(108,899)**	(103,295)
Net cash used in financing activities		**(185,109)**	(141,658)	**(211,695)**	(203,832)
Net (decrease) increase in cash		**(4,404)**	25,900	**(70,595)**	31,290
Cash, beginning of period		**52,375**	69,744	**118,566**	64,354
Cash, end of period		**$ 47,971**	$ 95,644	**$ 47,971**	$ 95,644

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 publicly traded on the Toronto Stock Exchange. The Company's registered address is 243 Consumers Road, Toronto, Ontario, M2J 4W8, Canada.

The Company is a licensor of 1,215 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 56 Shoppers Simply Pharmacy®/Pharmaprix Simplement Santé® medical clinic pharmacies and six Murale™ beauty stores. In addition, the Company owns and operates 63 Shoppers Home Health Care® stores. In addition to its store network, the Company owns Shoppers Drug Mart Specialty Health Network Inc., a provider of specialty drug distribution, pharmacy and comprehensive patient support services, and MediSystem Technologies Inc., a provider of pharmaceutical products and services to long-term care facilities.

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

2. BASIS OF PREPARATION

Statement of Compliance

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

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

These condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on July 18, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) New Accounting Standards

(i) Deferred Taxes – Recovery of Underlying Assets

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

(b) New Standards and Interpretations not yet Adopted

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

(i) Financial Instruments – Disclosures

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

(ii) Financial Instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Fair Value Measurement

The IASB has issued a new standard, IFRS 13, "Fair Value Measurement" ("IFRS 13"), which provides a standard definition of fair value, sets out a framework for measuring fair value and provides for specific disclosures about fair value measurements. IFRS 13 applies to all International Financial Reporting Standards that require or permit fair value measurements or disclosures. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IFRS 13 on its results of operations, financial position and disclosures.

(iv) Consolidated Financial Statements

The IASB has issued a new standard, IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), which establishes the principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 establishes control as the basis for consolidation and defines the principle of control. An investor controls an investee if the investor has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 was issued as part of the IASB's broader project on interests in all types of entities. This project also resulted in the issuance of additional standards as described in (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.

(v) Joint Arrangements

The IASB has issued a new standard, IFRS 11, "Joint Arrangements" ("IFRS 11"), which establishes the principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31, "Interests in Joint Ventures" and SIC Interpretation 13, "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". The standard defines a joint arrangement as an arrangement where two or more parties have joint control, with joint control being defined as the contractually agreed sharing of control where decisions about relevant activities require unanimous consent of the parties sharing control. The standard classifies joint arrangements as either joint operations or joint investments and the classification determines the accounting treatment. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IFRS 11 on its results of operations, financial position and disclosures.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(vi) Disclosure of Interests in Other Entities

The IASB has issued a new standard, IFRS 12, "Disclosure of Interests in Other Entities" ("IFRS 12"), which integrates and provides consistent disclosure requirements for all interests in other entities such as subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IFRS 12 on its disclosures.

(vii) Separate Financial Statements

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

(viii) Investments in Associates and Joint Ventures

The IASB has issued a revised standard, IAS 28, "Investments in Associates and Joint Ventures" ("IAS 28"), which prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The Company is assessing the impact of IAS 28 on its results of operations, financial position and disclosures.

(ix) Presentation of Financial Statements – Other Comprehensive Income

The IASB 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Post-Employment Benefits

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

(xi) Financial Instruments - Asset and Liability Offsetting

The IASB has issued amendments to IFRS 7 and IAS 32, "Financial Instruments: Presentation" ("IAS 32"), which clarify the requirements for offsetting financial instruments and require new disclosures on the effect of offsetting arrangements on an entity's financial position. The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The Company is assessing the impact of the amendments to IFRS 7 and IAS 32 on its results of operations, financial position and disclosures.

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 12 and 24 weeks ended June 16, 2012 of $5,804 and $12,948 (2011: $200 and $6,465) 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 24 weeks ended June 16, 2012, the Company expects that $2,809 (2011: $38) of acquired goodwill will be deductible for tax purposes.

The values of assets acquired and liabilities assumed have been determined 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 12 and 24 weeks ended June 16, 2012, the Company applied a pre-tax discount rate of 9 percent (2011: 9 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.

On May 22, 2012, the Company entered into an asset purchase agreement with Paragon Pharmacies Limited ("Paragon") setting out the terms and conditions under which the Company has agreed to purchase substantially all of the assets of Paragon. The assets consist primarily of a chain of 19 retail pharmacies and three central fill pharmacies in British Columbia, Alberta, and Manitoba. The Company has agreed to purchase the assets for approximately $75,000 in cash, subject to certain adjustments. The transaction must be approved by at least 66.7% of the votes cast by the shareholders of Paragon.

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

5. COST OF GOODS SOLD

During the 12 and 24 weeks ended June 16, 2012, the Company recorded $11,018 and $23,543 (2011: $10,779 and $21,505) as an expense for the write-down of inventory as a result of net realizable value being lower than cost in cost of goods sold in the condensed consolidated statements of earnings.

During the 12 and 24 weeks ended June 16, 2012 and June 18, 2011, the Company did not reverse any significant inventory write-downs recognized in previous periods.

6. EMPLOYEE BENEFITS EXPENSE

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

	12 Weeks Ended		24 Weeks Ended	
	June 16, 2012	June 18, 2011	**June 16, 2012**	June 18, 2011
Wages and salaries	**$ 330,236**	$ 315,795	**$ 657,832**	$ 626,343
Statutory deductions	**40,589**	38,728	**84,746**	80,308
Expenses related to pension and benefits	**1,976**	1,501	**3,952**	3,002
Share-based payment transactions	**1,899**	1,419	**3,710**	(1,003)
	$ 374,700	$ 357,443	**$ 750,240**	$ 708,650

7. DEPRECIATION AND AMORTIZATION EXPENSE

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

	12 Weeks Ended		24 Weeks Ended	
	June 16, 2012	June 18, 2011	**June 16, 2012**	June 18, 2011
Property and equipment	**$ 61,162**	$ 58,173	**$ 122,037**	$ 116,833
Investment property	**82**	64	**150**	134
Intangible assets	**12,336**	10,351	**24,292**	20,645
	$ 73,580	$ 68,588	**$ 146,479**	$ 137,612

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 12 and 24 weeks ended June 16, 2012, the Company recognized a net loss of $982 and $2,009 on the disposal of property and equipment, investment property and intangible assets (2011: $1,392 and $3,438). During the 12 and 24 weeks ended June 16, 2012 and June 18, 2011, the Company did not recognize any impairment losses on property and equipment or intangible assets.

8. LONG-TERM DEBT

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

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

9. SHARE CAPITAL

Normal Course Issuer Bid

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

During the 12 and 24 weeks ended June 16, 2012, the Company purchased and cancelled 2,155,900 and 3,975,600 (2011: nil and nil) common shares under its normal course issuer bid programs at a cost of $90,052 and $164,984 (2011: $nil and $nil). The premium paid over the average book value of the shares repurchased of $74,966 and $137,167 (2011: $nil and $nil) has been charged to retained earnings. The Company purchased an additional 147,400 (2011: nil) shares during the period at a cost of $5,877 (2011: $nil). These shares were cancelled subsequent to the end of the period. The cost of these latter purchases is recorded as treasury shares in Shareholders' equity at the end of the period. During the 12 weeks ended March 24, 2012 and the 12 weeks ended June 16, 2012, the Company cancelled the 115,900 and 1,283,000 shares, respectively, that were recognized as treasury shares at the end of each preceding reporting period. The cancelled shares were charged to share capital and retained earnings accordingly.

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

9. SHARE CAPITAL (continued)

Dividends

On July 18, 2012, the Board of Directors declared a dividend of 26.5 cents per common share payable October 15, 2012 to shareholders of record as of the close of business on September 28, 2012.

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

Declaration Date	Record Date	Payment Date	Dividend per Common Share
February 9, 2012	March 30, 2012	April 13, 2012	$ 0.265
April 26, 2012	June 29, 2012	July 13, 2012	$ 0.265
July 18, 2012	September 28, 2012	October 15, 2012	$ 0.265
February 10, 2011	March 31, 2011	April 15, 2011	$ 0.250
April 27, 2011	June 30, 2011	July 15, 2011	$ 0.250
July 21, 2011	September 30, 2011	October 14, 2011	$ 0.250
November 9, 2011	December 30, 2011	January 13, 2012	$ 0.250

10. EARNINGS PER COMMON SHARE

Basic Net Earnings per Common Share

The calculation of basic net earnings per common share at June 16, 2012 was based on net earnings for the 12 and 24 weeks ended June 16, 2012 of $145,711 and $264,943 (2011: $147,925 and $265,466) and a weighted average number of shares outstanding (basic) of 209,500,383 and 210,669,743 (2011: 217,471,965 and 217,468,775). The weighted average number of shares outstanding (basic) is calculated as follows:

Weighted Average Shares Outstanding (Basic)

	12 Weeks Ended		24 Weeks Ended	
	June 16, 2012	June 18, 2011	**June 16, 2012**	June 18, 2011
Issued shares, beginning of the period	**211,822,997**	217,473,716	**212,475,597**	217,452,068
Effect of share options exercised	**6,463**	-	**3,232**	18,988
Effect of treasury shares cancelled	**(1,283,000)**	-	**(115,900)**	-
Effect of shares repurchased	**(1,046,077)**	-	**(1,692,518)**	-
Effect of share purchase loans	-	(1,751)	**(668)**	(2,281)
Weighted average number of shares outstanding, end of the period	**209,500,383**	217,471,965	**210,669,743**	217,468,775

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

10. EARNINGS PER COMMON SHARE (continued)

Diluted Net Earnings per Common Share

The calculation of diluted net earnings per common share at June 16, 2012 was based on net earnings for the 12 and 24 weeks ended June 16, 2012 of $145,711 and $264,943 (2011: $147,925 and $265,466) and a weighted average number of shares outstanding after adjustment for the effects of all dilutive potential shares of 209,530,968 and 210,696,410 (2011: 217,582,673 and 217,578,895). The weighted average number of shares outstanding (diluted) is calculated as follows:

Weighted Average Shares Outstanding (Diluted)

	12 Weeks Ended		24 Weeks Ended	
	June 16, 2012	June 18, 2011	**June 16, 2012**	June 18, 2011
Weighted average number of shares outstanding (basic), end of the period	**209,500,383**	217,471,965	**210,669,743**	217,468,775
Potentially dilutive share options	**30,585**	110,708	**26,667**	110,120
Weighted average number of shares outstanding (diluted), end of the period	**209,530,968**	217,582,673	**210,696,410**	217,578,895

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.

11. SHARE-BASED PAYMENTS

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

During the 12 and 24 weeks ended June 16, 2012, the Company recognized the following compensation expense associated with stock options issued under the employee and director plans in operating and administrative expenses:

	12 Weeks Ended		24 Weeks Ended	
Net expenses (reversal) associated with:	**June 16, 2012**	June 18, 2011	**June 16, 2012**	June 18, 2011
Options granted in 2006	$ **-**	$ -	$ **-**	$ (921)
Options granted in 2010	**15**	37	**30**	(721)
Options granted in 2011	**147**	60	**295**	120
Options granted in 2012	**106**	-	**211**	-
Total net expenses (reversal) recognized in operating and administrative expenses	$ **268**	$ 97	$ **536**	$ (1,522)

Included in the amounts for the 24 weeks ended June 18, 2011 is a reversal of compensation expense of $1,715 as a result of the departure of certain management personnel in the first quarter of 2011.

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 Share Incentive Plan ("share plan") and changes to it during the current and prior financial periods:

						24 Weeks Ended
			June 16, 2012			June 18, 2011
	Options on common shares		**Weighted average exercise price per share**	Options on common shares		Weighted average exercise price per share
Outstanding, beginning of period	**380,877**	**$**	**40.23**	803,492	$	39.53
Granted	**138,543**		**40.21**	83,312		40.81
Exercised	**(30,373)**		**23.79**	(21,648)		28.20
Forfeited/cancelled including repurchased	**-**		**-**	(287,039)		44.47
Outstanding, end of period	**489,047**	**$**	**41.25**	578,117	$	37.79
Options exercisable, end of period	**108,329**	**$**	**40.38**	465,033	$	36.60

							June 16, 2012
				Outstanding Options			**Exercisable Options**
Range of exercise prices	**Number of options outstanding**	**Weighted average contractual life (years)**		**Weighted average exercise price per share**	**Number of exercisable options**		**Weighted average exercise price per share**
$23.48 - $26.57	2,738	1.21		25.86	2,738		25.86
$29.30 - $36.41	28,532	1.33		34.34	28,532		34.34
$40.21 - $44.09	457,777	5.91		41.76	77,059		43.13
	489,047	5.61	$	41.25	108,329	$	40.38

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

11. SHARE-BASED PAYMENTS (continued)

Options granted

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

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

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

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

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

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

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

11. SHARE-BASED PAYMENTS (continued)

Restricted Share Unit Plan

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

During the 12 and 24 weeks ended June 16, 2012, the Company awarded nil and 280,106 RSUs (2011: nil and 193,474 RSUs) at a grant date fair value of $40.21 (2011: $40.81), which vest 100% after three years.

During the 24 weeks ended June 18, 2011, the Company cancelled 80,537 RSUs as a result of the departure of certain management personnel in the first quarter of 2011.

As at June 16, 2012, there were 641,295 RSUs outstanding (2011: 394,237 RSUs).

During the 12 and 24 weeks ended June 16, 2012, the Company recognized compensation expense of $1,631 and $3,174 (2011: $1,232 and $2,330) associated with the RSUs granted during the year. During the 24 weeks ended June 18, 2011, the Company reversed compensation expense of $1,428 as a result of the cancellation of previously granted RSUs in the first quarter of 2011.

The Company entered into cash-settled equity forward agreements to limit its exposure to future price changes in the Company's share price for the Company's RSUs granted in 2010 and 2011. 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

	12 Weeks Ended		24 Weeks Ended	
	June 16, 2012	June 18, 2011	**June 16, 2012**	June 18, 2011
Accounts receivable	**$ 23,776**	$ 23,452	**$ 44,683**	$ 19,135
Inventory	**(817)**	24,278	**50,791**	55,336
Prepaid expenses	**(10,355)**	(6,655)	**(22,607)**	12,034
Accounts payable and accrued liabilities	**56,103**	1,414	**(147,138)**	(92,663)
	$ 68,707	$ 42,489	**$ (74,271)**	$ (6,158)

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

Earnings Coverage Exhibit to the Condensed Consolidated Financial Statements

52 weeks ended June 16, 2012:		
Earnings coverage ratio	14.20	times

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