

*Consolidated Interim Financial Statements of*

**PARAGON PHARMACIES LIMITED**

*(Unaudited)*

*February 28, 2007*

# PARAGON PHARMACIES LIMITED

## Interim Consolidated Statement of Income (Loss) and Deficit

Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006 (Note 1)

	February 28, 2007 (3 months) \$	February 28, 2006 (3 months) \$	February 28, 2007 (6 months) \$	February 28, 2006 (6 months) \$
<b>REVENUE</b>	<b>16,827,342</b>	7,690,203	<b>32,865,860</b>	14,538,202
<b>COST OF SALES</b>	<b>11,333,745</b>	5,634,809	<b>22,151,251</b>	10,423,394
<b>GROSS PROFIT</b>	<b>5,493,597</b>	2,055,394	<b>10,714,609</b>	4,114,808
<b>EXPENSES</b>				
Selling, general and administration	4,648,099	1,962,223	8,963,084	3,948,687
Amortization	500,633	264,884	1,018,067	536,569
Bank charges and interest	32,126	13,505	72,089	25,794
Interest on long-term debt	166,984	45,609	344,044	95,304
Stock-based compensation (Note 9)	-	345,528	-	345,528
	<b>5,347,842</b>	2,631,749	<b>10,397,284</b>	4,951,882
<b>INCOME (LOSS) BEFORE OTHER ITEMS</b>	<b>145,755</b>	(576,355)	<b>317,325</b>	(837,074)
<b>OTHER ITEMS</b>				
Amalgamation costs greater than cash received (Note 2)	(29,822)	-	(188,765)	-
Loss on equity investments (Note 10)	(34,090)	(61,157)	(132,768)	(69,105)
<b>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	<b>81,843</b>	(637,512)	<b>(4,208)</b>	(906,179)
<b>LOSS FROM DISCONTINUED OPERATIONS</b>	-	633	-	(802)
<b>NET INCOME (LOSS)</b>	<b>81,843</b>	(636,879)	<b>(4,208)</b>	(906,981)
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(4,986,300)</b>	(3,547,872)	<b>(4,900,249)</b>	(3,651,356)
Disposition of Paragon Central Fill Ltd.	-	-	-	373,586
<b>DEFICIT, END OF PERIOD</b>	<b>(4,904,457)</b>	(4,184,751)	<b>(4,904,457)</b>	(4,184,751)
<b>INCOME (LOSS) PER SHARE</b>				
BASIC	<b>\$0.00</b>	(\$0.04)	<b>\$0.00</b>	(\$0.05)
DILUTED	<b>\$0.00</b>	(\$0.04)	<b>\$0.00</b>	(\$0.05)

# PARAGON PHARMACIES LIMITED

## Interim Consolidated Balance Sheets

February 28, 2007 and August 31, 2006

	February 28, 2007 \$	August 31, 2006 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	3,287,799	86,331
Cash held in trust (Note 13)	1,733,080	1,500,000
Accounts receivable	2,350,293	2,828,929
Inventory	9,840,823	8,826,745
Prepaid expenses and deposits	510,401	165,449
Due from related parties (Note 5)	323,167	597,684
	<b>18,045,563</b>	<b>14,005,138</b>
Deferred costs	433,805	367,533
Capital assets (Note 3)	1,428,900	1,368,903
Intangible assets (Note 4)	4,726,337	5,457,545
Investment in private companies (Note 10)	372,468	435,445
Goodwill, at cost	12,420,709	12,420,709
	<b>37,427,782</b>	<b>34,055,273</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	5,194,121	4,004,263
Current portion of deferred compensation (Note 8)	100,000	-
Current portion of long-term debt (Note 6)	3,038,243	3,037,853
Current portion of capital leases (Note 7)	70,070	61,061
	<b>8,402,434</b>	<b>7,103,177</b>
Deferred compensation (Note 8)	200,000	-
Long-term debt (Note 6)	6,394,135	7,891,608
Capital leases (Note 7)	93,040	86,138
	<b>15,089,609</b>	<b>15,080,923</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	26,310,170	22,939,536
Contributed surplus (Note 9)	932,460	935,063
Deficit	(4,904,457)	(4,900,249)
	<b>22,338,173</b>	<b>18,974,350</b>
	<b>37,427,782</b>	<b>34,055,273</b>

# PARAGON PHARMACIES LIMITED

## Interim Consolidated Statement of Cash Flows

	February 28, 2007 (3 months) \$	February 28, 2006 (3 months) \$	February 28, 2007 (6 months) \$	February 28, 2006 (6 months) \$
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>				
<b>OPERATING</b>				
Net income (loss) from continuing operations	81,843	(637,512)	(4,208)	(906,179)
Adjustments for:				
Amortization	500,633	264,884	1,018,067	536,569
Stock-based compensation (Note 9)	-	345,528	-	345,528
Loss on equity investment	34,090	61,157	132,768	69,105
	<b>616,566</b>	34,057	<b>1,46,627</b>	45,023
Changes in non-cash working capital and other non-cash items:				
Accounts receivable	964,518	269,579	478,636	78,819
Inventory	25,541	112,395	(1,014,078)	148,550
Prepaid expenses and deposits	(193,870)	10,154	(244,952)	72,374
Accounts payable and accrued liabilities	(1,507,645)	(410,470)	1,156,857	91,404
Income taxes receivable	1,484	(451)	-	(451)
Operating cash flow from continuing operations	<b>(93,406)</b>	15,264	<b>1,523,090</b>	435,719
Net income (loss) from discontinued operations	-	633	-	(802)
Current assets	-	53,455	-	238,289
Current liabilities	-	(41,037)	-	(161,656)
Operating cash flow from discontinued operations	-	13,051	-	75,831
	<b>(93,406)</b>	28,315	<b>1,523,090</b>	511,550
<b>FINANCING</b>				
Advances (repayment) from related parties	(3,763)	204,723	274,517	(81,358)
Cash from Rinoa (Note 2)	585,982		585,982	
Deposits received in advance for issuance of shares	-	(250,000)	-	-
Issuance of share capital, net of share issuance costs	3,081,777	204,520	3,006,870	204,520
Repayment of long-term debt, net	(690,767)	(99,239)	(1,497,083)	(141,230)
Repayment of capital leases	(21,535)	6,131	(33,699)	(210,882)
	<b>2,951,694</b>	(66,135)	<b>2,336,587</b>	(228,950)
<b>INVESTING</b>				
Cash held in trust	(233,080)	(500,000)	(233,080)	(500,000)
Cash received (advanced) from trust account	(1,500,000)	-	-	250,000
Proceeds on disposition of Paragon Central Fill Ltd.	-	-	-	-
Purchase of Prairie Supply Co-op shares	-	-	(69,789)	(280)
Purchase of interest in Catalyst Healthcare Ltd. (Note 10)	-	(17)	-	-
Deferred investment costs	(414,618)	(220,370)	(66,272)	(220,370)
Intangible assets	1,392	(25,150)	-	(25,150)
Proceeds on disposal of capital assets	-	-	-	294,145
Purchase of capital assets and intangibles	(198,997)	(96,460)	(322,070)	(204,861)
Non cash investing working capital	33,002	-	33,002	-
	<b>(2,312,301)</b>	(841,997)	<b>(658,209)</b>	(406,516)
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>545,987</b>	(747,547)	<b>3,201,468</b>	(123,916)
<b>CASH, BEGINNING OF PERIOD</b>	<b>2,741,812</b>	1,040,907	<b>86,331</b>	417,276
<b>CASH, END OF PERIOD</b>	<b>3,287,799</b>	293,360	<b>3,287,799</b>	293,360

**Notes to the Interim Consolidated Financial Statements****Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006**

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**1. BASIS OF PRESENTATION**

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and follow the same accounting policies and methods of application with those used in the preparation of the audited annual consolidated financial statements for the year ended August 31, 2006, and include all adjustments necessary to present fairly the results for the interim periods. Certain information and disclosure included in the year end consolidated financial statements have been condensed or omitted. Certain accounts from the previous quarter have been changed to conform with the presentation of this quarter. These financial statements should be read in conjunction with the consolidated financial statements and notes for the year ended August 31, 2006.

Paragon Pharmacies Limited (the “Company”) is comprised of one single operating segment which is drug store operations focusing on the customer and communities in which they are located. In addition, the pharmacies offer supplemental services such as Canada Post outlets, lottery tickets and transit pass sales.

These interim consolidated financial statements also reflect the amalgamation of Rinoa Enterprises Ltd. (“Rinoa”) and Paragon Pharmacies Ltd. (“Paragon”) on October 31, 2006 to create Paragon Pharmacies Limited (Note 2).

*Deferred Costs*

Deferred costs represents amounts expended directly and incrementally for the acquisition and financing described in Note 12. Upon finalization of the acquisition, these costs (\$84,862) will be recognized as part of the total cost of the acquisition. Upon finalization of the financing, these costs (\$348,943) will be recognized as part of the total cost of the financing.

**2. AMALGAMATION WITH RINO A ENTERPRISES LTD.**

On October 13, 2006 the respective shareholders of Paragon Pharmacies Ltd. (“Paragon”) and Rinoa Enterprises Ltd. (“Rinoa”) approved the amalgamation of both companies. On October 31, 2006, the Amalgamation was completed. The terms of the Amalgamation involved the reverse take over of Rinoa by Paragon to create a new company under the name Paragon Pharmacies Limited (the “Company”).

Pursuant to the Amalgamation, all outstanding securities of both Paragon and Rinoa were exchanged for the Company’s securities on a one for one basis. On November 2, 2006, the TSX Venture Exchange (“the Exchange”) approved the amalgamation as Rinoa’s Qualifying Transaction. As a result, on November 3, 2006, Rinoa ceased to be a Capital Pool Company and its common shares were delisted from trading on the Exchange. Also on November 3,

**2. AMALGAMATION WITH RINO A ENTERPRISES LTD. (Continued)**

**Notes to the Interim Consolidated Financial Statements****Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006**

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2006, in accordance with Exchange Policy 2.5, the common shares of Paragon Pharmacies Limited commenced trading on the Exchange.

As Paragon was deemed to be the acquirer for accounting purposes, the Company's assets and liabilities are included in the interim consolidated financial statements at their carrying value.

As the shareholders of Paragon obtained control of Rinoa reverse takeover accounting was applied. The amalgamation transaction costs of \$188,765 in excess of cash received have been charged to the consolidated statement of loss.

The consolidated interim financial statements of the combined entities are considered a continuation of the financial statements of Paragon Pharmacies Limited.

The accounting for the reverse take-over reflects the fair value of Rinoa's assets acquired, after reflecting the business combination with Paragon as follows:

	<u>          </u> \$ <u>          </u>
Current assets	3,896
Current liabilities	<u>(79,815)</u>
	(75,919)
Cash acquired	<u>585,982</u>
	<u><u>510,063</u></u>

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006

## 3. CAPITAL ASSETS

	February 28, 2007		August 31, 2006	
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Net Book Value \$
Furniture and fixtures	702,182	379,199	322,983	282,674
Automotive	180,427	82,401	98,026	83,644
Nursing home and pharmacy equipment	54,173	14,346	39,827	10,598
Computer equipment	615,600	361,624	253,975	224,147
Computer software	136,809	111,389	25,421	60,827
Assets under capital lease	230,292	45,614	184,678	163,907
Leasehold improvements	1,130,787	626,797	503,990	543,106
	<b>3,050,270</b>	<b>1,621,370</b>	<b>1,428,900</b>	<b>1,368,903</b>

## 4. INTANGIBLE ASSETS

	February 28, 2007		August 31, 2006	
	Cost \$	Accumulated Amortization \$	Net Book Value \$	Net Book Value \$
Prescription files	7,245,104	2,887,802	4,357,302	4,975,005
Pre-operating costs	27,823	4,232	23,591	26,098
Operating leases	466,551	180,836	285,715	391,109
Loan financing fees	71,396	11,667	59,729	65,333
	<b>7,810,874</b>	<b>3,084,537</b>	<b>4,726,337</b>	<b>5,457,545</b>

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006

## 5. DUE FROM (TO) RELATED PARTIES

	February 28, 2007 \$	August 31, 2006 \$
ACO Super Drug Mart Ltd.	(177,351)	(67,392)
Catalyst Healthcare Ltd.	-	96,904
1036985 Alberta Ltd. (Cochrane Super Drug Mart)	362,297	184,058
Super Drug Mart Partnership	138,221	384,114
	<b>323,167</b>	<b>597,684</b>

The amounts due from (to) related parties are non-interest bearing, unsecured with no fixed terms of repayment. The parties are related as they have common shareholders.

**Notes to the Interim Consolidated Financial Statements**  
**Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006**

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**6. LONG-TERM DEBT**

	<b>February 28, 2007 \$</b>	<b>August 31, 2006 \$</b>
Toronto Dominion Bank <sup>1</sup>		
Loan payable bearing interest at tiered rates from prime plus 0.50% to prime plus 1.50% per annum, repayable in monthly instalments of \$166,667 plus interest, due April 2011, secured by a general security agreement, first charge on all the assets of the Company including its subsidiaries, with a specific first charge on the inventory of the Company, and unlimited guarantees of advances executed by the Company and its subsidiaries	<b>8,333,333</b>	9,333,333
Third Party Loan Agreement		
Non-interest bearing loan, repayable in monthly instalments of \$83,333, due February 2008.	<b>1,000,000</b>	1,500,000
CIT Financial Ltd.		
Loan bearing interest at prime plus 4.9%, secured by a general security agreement, a general assignment of book debts and personal guarantees, repayable at \$823 per month, including interest	<b>12,509</b>	16,887
Microsoft Capital Corporation		
Loan payable bearing interest at 2.567% per annum, payable in blended monthly instalments of \$941, due September 2007, secured by certain capital assets, a general security agreement covering all assets and undertakings of Black Mountain Pharmacy (1979) Ltd.	<b>6,528</b>	12,046

<sup>1</sup> The Company has entered into a General Security Agreement with a supplier, who is an arms length third party. This General Security Agreement is subordinated to the Toronto Dominion bank loan

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006

## 6. LONG-TERM DEBT (Continued)

	February 28, 2007 \$	August 31, 2006 \$
Ford Credit		
Non-interest bearing loan, repayable in monthly instalments of \$450, due May 2009, secured by a general security agreement covering all assets and undertakings of the Company	11,699	14,400
Non-interest bearing loan, repayable in monthly instalments of \$463, due November 2010, secured by a general security agreement covering all assets and undertakings of the Company	20,362	23,601
Non-interest bearing loan, repayable in monthly instalments of \$572, due November 2010, secured by a general security agreement covering all assets and undertakings of the Company	25,187	29,194
Honda Canada		
Loan bearing interest at 4.9%, repayable in monthly instalments of \$442, due January 2012, secured by a general security agreement covering all assets and undertakings of the Company	22,760	-
	<b>9,432,378</b>	10,929,461
Less current portion	<b>3,038,243</b>	3,037,853
	<b>6,394,135</b>	7,891,608

Principal payments required in each of the next five twelve month periods ended February 28 are as follows:

	\$
2008	3,038,243
2009	2,021,197
2010	2,017,051
2011	346,244
2012	4,244

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006

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## 7. CAPITAL LEASES

	<u>\$</u>
Period ending February 28, 2008	81,429
2009	45,818
2010	26,773
2011	16,529
2012	<u>12,844</u>
Total minimum lease payments	183,393
Less amount representing interest at rates ranging from 3% - 18.2%	<u>20,283</u>
Balance of obligation	163,110
Less current portion	<u>70,070</u>
	<u><u>93,040</u></u>

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006

**8. DEFERRED COMPENSATION OBLIGATION**

As part of the agreed upon terms of the purchase of the assets of Super Drug Mart Partnership Group the Company incurred a deferred compensation obligation with respect to two employees. The obligation requires an annual payment of \$100,000 on each of April 28, 2007, 2008, and 2009. Accordingly, the deferred compensation obligation is adjusted each period with a corresponding charge to compensation expense to reflect the fair value of the amount owed to the employees.

**9. SHARE CAPITAL**

	Number of Common Shares Issued	Amount \$
Authorized		
Unlimited number of common voting shares		
Unlimited number of first and second preferred shares, issuable in series, rights to be determined by directors		
Issued		
Balance, August 31, 2006	26,884,599	<b>24,525,924</b>
Shares issued to the shareholders of Rinoa on the acquisition of Rinoa by Paragon (Note 2)	5,299,825	<b>510,063</b>
Issuance of common shares on exercise of agent options	20,020	<b>6,607</b>
Issuance of common shares on private placement for cash	5,000,000	<b>4,000,000</b>
Balance, February 28, 2007	37,204,444	<b>29,042,594</b>
	<b>February 28, 2007</b>	August 31, 2006
	\$	\$
Shares issued	<b>29,042,594</b>	24,525,924
Share issuance costs	<b>(2,146,442)</b>	(1,586,388)
Share issuance costs – Rinoa (note 2)	<b>(585,982)</b>	-
Share capital	<b>26,310,170</b>	22,939,536

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006

## 9. SHARE CAPITAL (Continued)

*Granting of options*

During the six month period ended February 28, 2007 the Company issued nil options (twelve month period ended August 31, 2006 - Nil) with a weighted average exercise price of \$Nil (August 31, 2006 - \$Nil).

28,825 Rinoa agent options were exercised prior to October 31, 2006 with a weighted average exercise price of \$0.20. 250,000 Rinoa directors' options were exercised on October 31, 2006 with a weighted average exercise price of \$0.20.

20,020 options with a weighted average exercise price of \$0.20 were exercised during the six month period ended February 28, 2007 (twelve month period ended August 31, 2006 - Nil) and 35,000 options (twelve month period ended August 31, 2006 - Nil options) with a weighted average exercise price of \$1.00 (August 31, 2006 - \$Nil) were cancelled.

The options outstanding at February 28, 2007 were as follows:

Date Issued	Number of Options Outstanding	Exercise Price \$	Expiry Date
February 27, 2004	182,000	1.00	February 27, 2009
December 10, 2004	118,500	1.50	December 10, 2009
June 30, 2005	250,000	1.50	June 30, 2010
	550,500		
November 3, 2005 (Outstanding options of Rinoa at February 28, 2007)	130,155	0.20	November 3, 2007
	680,655		

The weighted average exercise price of the options outstanding and all exercisable at February 28, 2007 is \$1.12 (August 31, 2006 - \$1.31).

Subsequent to period end, options totalling 90,000 expired and therefore were cancelled.

Subsequent to period end, options totalling 990,000 with a term of 5 years were granted to officers and directors at an exercise price of \$0.80.

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006

## 9. SHARE CAPITAL (Continued)

*Warrants*

The following warrants were issued entitling the holder thereof to purchase one common share of the Company as described below:

Date Issued	Number of Warrants	Number of Warrants Exercised	Number of Warrants Expired	Total Warrants Outstanding	Exercise Price \$	Expiry Date
September 15, 2004	15,787	-	15,787	-	1.50	September 15, 2006
December 1, 2004	9,200	-	9,200	-	1.50	December 1, 2006
December 15, 2004	32,000	-	32,000	-	1.50	December 15, 2006
February 28, 2006	2,000,000	-	-	2,000,000	1.25	August 25, 2008
April 28, 2006	3,635,000	-	-	3,635,000	0.80	April 28, 2008
February 16, 2007	2,500,000	-	-	2,500,000	1.00	February 16, 2009
February 16, 2007	350,000	-	-	350,000	0.80	February 16, 2009
	<u>8,541,987</u>	<u>-</u>	<u>56,987</u>	<u>8,485,000</u>		

The weighted average exercise price of the warrants outstanding and exercisable at February 28, 2007 is \$0.96 (August 31, 2006 - \$0.97). The weighted average exercise price of the warrants issued during the six month period ended February 28, 2007 was \$0.98 (twelve month period ended August 31, 2006 - \$0.96). The weighted average exercise price of the warrants exercised and expired during the six month period was \$Nil and \$1.50, respectively (twelve month period ended August 31, 2006 - \$Nil and \$1.28, respectively).

In conjunction with the Company's private placement on February 16, 2007 of 5 million units, a total of 2.5 million warrants were issued with the units and 350,000 warrants were issued to the agent, each exercisable into a common share at \$1.00 and \$0.80 per common share, respectively.

The fair value of each warrant granted was estimated to be \$0.12 to \$0.19, respectively, on the date of grant using the Black-Scholes option-pricing model with weighted average assumptions as follows:

## Warrants

Discount rate - equivalent to 1- to 3-year bond	4%
Expected lives (years)	2 years
Expected volatility	36.57%
Expected dividends	0

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006

## 9. SHARE CAPITAL (Continued)

*Stock-based compensation*

The Company recorded compensation expense totalling \$nil (February 28, 2006 - \$345,528) using a fair-value based method for stock options and warrants granted to directors, executives, employees and consultants in the consolidated financial statements.

Contributed surplus results from the recording of stock-based compensation as follows:

	<u>\$</u>
Contributed surplus, August 31, 2006	<b>935,063</b>
Exercise of Agents Options	<b>(2,603)</b>
Contributed surplus, February 28, 2007	<b><u>932,460</u></b>

## 10. INVESTMENT IN PRIVATE COMPANIES AND LOSS ON EQUITY INVESTMENTS

*1036985 Alberta Ltd. (operating as Cochrane Super Drug Mart)*

On April 28, 2006, the Company purchased 50% beneficial interest in the outstanding shares in 1036985 Alberta Ltd. ("Cochrane Super Drug Mart") for \$350,025, an equity investment. The Company has recognized its portion of loss of \$60,123 and income of \$12,775, in the consolidated statements of loss and in its investment on the consolidated balance sheet at February 28, 2007 and August 31, 2006, respectively.

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

	February 28, 2007 (3 months) \$	February 28, 2006 (3 months) \$	February 28, 2007 (6 months) \$	February 28, 2006 (6 months) \$
Cash and cash equivalents represented by:				
Cash	<b>670,582</b>	293,360	<b>670,582</b>	293,360
Term Deposits	<b>2,617,217</b>	-	<b>2,617,217</b>	-
Cash and cash equivalents	<b><u>3,287,799</u></b>	293,360	<b><u>3,287,799</u></b>	293,360
Cash - continuing operations	<b>3,287,799</b>	290,206	<b>3,287,799</b>	290,206
Cash - discontinued operations	-	3,154	-	3,154
	<b><u>3,287,799</u></b>	293,360	<b><u>3,287,799</u></b>	293,360
Interest paid	<b><u>199,110</u></b>	59,114	<b><u>416,134</u></b>	121,098

**Notes to the Interim Consolidated Financial Statements****Three Month Periods and Six Month Periods Ended February 28, 2007 and 2006**

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**12. CONTINGENCY**

On April 5, 2007 the Corporation was named as a defendant in a statement of claim filed by Katz Group Canada Inc., Drug Trading Company Ltd., Pharmx Rexall Drug Stores Ltd. and Katz Group Canada Ltd., as plaintiffs. Management of the Corporation believes that the allegations raised in the statement of claim are without merit and the Corporation intends to vigorously defend the action to the full extent permitted under law.

**13. SUBSEQUENT EVENTS***Canterbury Investment*

On February 22, 2007 the Company entered into a subscription agreement with Canterbury Park Capital GP L.P., on behalf of private equity funds of which it is the general partner ("Canterbury") that, if completed, will result in Canterbury acquiring ownership and control of 3,750,000 units of Paragon. Each unit consists of one common share of Paragon and one-half of one common share purchase warrant. Each warrant entitles the holder to acquire one common share of Paragon at a price of \$1.00 for a period of two years from the date of issue. The securities will be acquired by way of a private agreement between Canterbury and Paragon. Canterbury has agreed to pay \$0.80 per unit on the private placement, for total consideration of \$3,000,000.

In addition to the private placement of units, Paragon proposes to issue subordinated secured convertible debt in the amount of \$20,000,000 to Canterbury, with a two-year term. The funds are to be held in escrow until such funds are utilized for permitted uses. In certain circumstances, at the option of Canterbury or Paragon, the principal amount of the loan is convertible into 24,912,805 common shares at a rate of \$0.8028 per common share. Interest, which is payable at the rate of 15% per annum or higher under certain circumstances, may also be paid in additional common shares based on the then market price in certain circumstances.

The financing will be subject to terms and conditions customary for transactions of this nature.

*Acquisition*

On March 1, 2007 the Company closed the acquisition of the pharmacy assets and business of Nordic Pharmacy Inc. located in The Pas, Manitoba, through its wholly owned subsidiary, Paragon Nordic Pharmacy Ltd., for aggregate cash consideration of \$1,727,518 (subject to certain post-closing adjustments) and \$600,000 in deferred payments. This represented \$1,980,000 in goodwill and intangible assets, \$306,818 in inventory, \$40,000 in capital assets, and \$700 in deposits. The Company had deposited in its legal counsels trust account \$1,733,080 at February 28, 2007.