

*Interim Consolidated Financial Statements of*

**PARAGON PHARMACIES LIMITED**

*(Unaudited)*

*May 31, 2007*

# PARAGON PHARMACIES LIMITED

## Interim Consolidated Statement of Income (Loss) and Deficit (Note 1) Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006

	May 31, 2007 (3 months) \$	May 31, 2006 (3 months) \$	May 31, 2007 (9 months) \$	May 31, 2006 (9 months) \$
<b>REVENUE</b>	<b>17,067,123</b>	7,581,945	<b>49,171,845</b>	21,117,350
<b>COST OF SALES</b>	<b>11,317,169</b>	4,546,947	<b>32,985,695</b>	14,189,307
<b>GROSS PROFIT</b>	<b>5,749,954</b>	3,034,998	<b>16,186,150</b>	6,928,043
<b>EXPENSES</b>				
Selling, general and administration	5,352,908	2,802,799	14,054,035	6,458,373
Amortization	598,047	354,069	1,606,814	883,587
Bank charges and interest	30,656	9,767	102,746	32,251
Interest on long-term debt	151,567	102,112	494,168	197,416
Financing costs on convertible debenture (Note 18)	493,375	-	493,375	-
Stock-based compensation (Note 15)	139,676	352,586	139,676	698,114
	<b>6,766,229</b>	3,621,333	<b>16,890,814</b>	8,269,741
<b>LOSS BEFORE OTHER ITEMS</b>	<b>(1,016,275)</b>	(586,335)	<b>(704,664)</b>	(1,341,698)
<b>OTHER ITEMS</b>				
Amalgamation cost greater than cash received (Note 3)	(2,203)	-	(190,968)	-
Loss on equity investments (Note 16)	(43,251)	(75,885)	(176,019)	(144,990)
Interest income (Note 2)	59,355	38,350	102,039	38,350
<b>NET LOSS FROM CONTINUING OPERATIONS</b>	<b>(1,002,374)</b>	(623,870)	<b>(969,612)</b>	(1,448,338)
<b>LOSS FROM DISCONTINUED OPERATIONS (Note 7)</b>	<b>(111,495)</b>	(25,526)	<b>(148,465)</b>	(108,039)
Disposition of Mironuck Pharm. (Note 6)	56,245	-	56,245	-
<b>NET LOSS</b>	<b>(1,057,624)</b>	(649,369)	<b>(1,061,832)</b>	(1,556,377)
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(4,904,457)</b>	(4,184,751)	<b>(4,900,249)</b>	(3,651,356)
Disposition of Paragon Central Fill Ltd.	-	-	-	373,586
<b>DEFICIT, END OF PERIOD</b>	<b>(5,962,081)</b>	(4,834,147)	<b>(5,962,081)</b>	(4,834,147)
<b>LOSS PER SHARE</b>				
BASIC	(0.03)	(0.02)	(0.03)	(0.06)
DILUTED	(0.03)	(0.02)	(0.03)	(0.06)

# PARAGON PHARMACIES LIMITED

## Interim Consolidated Balance Sheets

May 31, 2007 and August 31, 2006

	May 31, 2007 \$	August 31, 2006 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	2,353,776	86,331
Cash held in trust (Note 4)	1,502,595	1,500,000
Accounts receivable	2,696,120	2,828,929
Inventory	9,422,726	8,826,745
Prepaid expenses and deposits	418,011	165,449
Deferred costs	215,405	367,533
Due from related parties (Note 11)	368,885	597,684
	<b>16,977,518</b>	<b>14,372,671</b>
Restricted cash (Note 18)	20,000,000	-
Capital assets (Note 8)	1,396,912	1,368,903
Intangible assets (Note 9)	6,952,495	5,457,545
Investment in private companies (Note 16)	514,216	435,445
Goodwill (Note 10)	13,306,747	12,420,709
	<b>59,147,888</b>	<b>34,055,273</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	4,950,577	4,004,263
Current portion of compensation obligation (Note 14)	100,000	-
Current portion of long-term debt (Note 12)	3,085,632	3,037,853
Current portion of capital leases (Note 13)	65,860	61,061
	<b>8,202,069</b>	<b>7,103,177</b>
Compensation obligation (Note 14)	100,000	-
Long-term debt (Note 12)	6,185,950	7,891,608
Convertible debenture (Note 18)	13,942,375	-
Capital leases (Note 13)	70,769	86,138
	<b>28,501,163</b>	<b>15,080,923</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 15)	28,985,722	22,939,536
Contributed surplus (Note 15)	1,072,084	935,063
Convertible debenture (Note 18)	6,551,000	-
Deficit	(5,962,081)	(4,900,249)
	<b>30,646,725</b>	<b>18,974,350</b>
	<b>59,147,888</b>	<b>34,055,273</b>

# PARAGON PHARMACIES LIMITED

## Interim Consolidated Statement of Cash Flows (Note 1)

Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006

	May 31, 2007 (3 months) \$	May 31, 2006 (3 months) \$	May 31, 2007 (9 months) \$	May 31, 2006 (9 months) \$
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>				
<b>OPERATING</b>				
Net loss from continuing operations	(1,002,374)	(623,870)	(969,612)	(1,448,338)
Adjustments for:				
Financing costs on convertible debenture (Note 18)	493,375	-	493,375	-
Amortization	598,047	354,069	1,606,814	883,587
Stock-based compensation (Note 15)	139,676	352,586	139,676	698,114
Loss on equity investment (Note 16)	43,251	75,885	176,019	144,990
	271,975	158,670	1,446,272	278,353
Changes in non-cash working capital and other non-cash items:				
Accounts receivable	(355,244)	(655,172)	117,631	(590,698)
Inventory	482,251	(141,559)	(493,721)	(48,984)
Prepaid expenses and deposits	87,614	(15,104)	(158,174)	59,947
Accounts payable and accrued liabilities	(246,133)	1,297,630	944,615	1,426,195
Income taxes receivable	-	29,549	-	29,098
Cash flow from operations from continuing operations	240,463	674,014	1,856,623	1,153,911
Cash flow from operations from discontinued operations (Note 7)	(104,704)	(98,668)	(197,774)	(67,015)
	135,759	575,346	1,658,849	1,086,896
<b>FINANCING</b>				
Advances to related parties	(45,718)	(599,012)	228,799	(680,370)
Cash from Rinoa (Note 3)	-	-	585,982	-
Issuance of convertible debenture, net of issuance costs (Note 18)	18,263,114	-	18,263,114	-
Issuance of share capital, net of share issuance costs (Note 15)	2,675,500	10,110,336	5,682,370	10,314,856
Repayment (advances) of long-term debt, net	(760,796)	7,894,398	(2,257,879)	7,753,168
Repayment of capital leases	(26,481)	(250)	(60,180)	(211,132)
	20,105,619	17,405,472	22,422,206	17,176,522
<b>INVESTING</b>				
Restricted cash (Note 18)	(20,000,000)	-	(20,000,000)	-
Cash held in trust	230,485	-	(2,595)	-
Proceeds on disposition of Paragon Central Fill Ltd.	-	-	-	250,000
Proceeds on disposition of Mironuck Pharmacies Ltd (Note 6)	486,064	-	486,064	-
Investment in private companies (Note 16)	(185,000)	-	(185,000)	-
Purchase of Prairie Supply Co-op shares	-	-	(69,789)	-
Purchase of shares in Catalyst Healthcare Ltd.	-	-	-	(263)
Investments, including deferred costs	218,400	53,860	152,128	(166,510)
Purchase of intangible assets	-	(72,673)	-	(97,823)
Proceeds on disposal of capital assets	-	-	-	294,145
Purchase of capital assets	(110,986)	(86,981)	(433,056)	(291,859)
Cash paid on purchase of Nordic Pharm. Inc. assets (Note 5)	(1,814,364)	-	(1,814,364)	-
Cash paid on purchase of Super Drug Mart assets	-	(18,182,277)	-	(18,682,277)
Non-cash investing working capital	-	-	33,002	-
	(21,175,401)	(18,288,071)	(21,833,610)	(18,694,587)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(934,023)</b>	<b>(307,253)</b>	<b>2,267,445</b>	<b>(431,169)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>3,287,799</b>	<b>293,360</b>	<b>86,331</b>	<b>417,276</b>
<b>(BANK INDEBTEDNESS) CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>2,353,776</b>	<b>(13,893)</b>	<b>2,353,776</b>	<b>(13,893)</b>

**Notes to the Interim Consolidated Financial Statements  
Three Month Periods and Nine Month Periods Ended May 31, 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 quarters 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.

**2. CHANGE IN ACCOUNTING PRESENTATION**

The Company has presented interest income as a separate disclosure in the statement of operations and reclassified prior periods’ presentation accordingly. Previously these revenues were presented as part of total revenue for the period. This change in accounting presentation was adopted for the current quarter ended May 31, 2007. The effect of the change was to decrease revenue and gross profit by \$59,355 and \$102,039 for the three and nine months ended May 31, 2007 respectively and \$38,350 for both the three and nine months ended May 31, 2006. There is no impact on the net income of the Company for any period.

**3. AMALGAMATION WITH RINOA 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

**Notes to the Interim Consolidated Financial Statements**  
**Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

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**3. AMALGAMATION WITH RINO A ENTERPRISES LTD. (continued)**

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, 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 \$190,968 in excess of cash received have been charged to the consolidated statement of loss.

The interim consolidated 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:

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

**4. CASH HELD IN TRUST**

The Company has funds held in trust related to acquisitions in progress.

**5. ACQUISITION OF NORDIC PHARMACIES INC.**

On March 1, 2007, the Company acquired all of the business assets of Nordic Pharmacies Inc., for cash consideration of \$1,814,364, including acquisition costs, and a promissory note of the Company. This note bears interest at 4.5% per annum, is compounded semi-annually and payable in two equal instalments, due March 2009.

**Notes to the Interim Consolidated Financial Statements**  
**Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

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**5. ACQUISITION OF NORDIC PHARMACIES INC. (continued)**

The following table summarizes the consideration paid:

	<u>\$</u>
Cash consideration	1,727,518
Transaction costs	86,846
Promissory note	600,000
Total consideration paid	<u>2,414,364</u>

The following table summarizes the assets acquired:

	<u>\$</u>
Cash	700
Inventory	306,818
Capital assets	40,000
Prescription files	1,110,000
Goodwill	956,846
Net assets acquired	<u>2,414,364</u>

**6. DISPOSITION OF MIRONUCK PHARMACIES LTD.**

On May 9, 2007, the company disposed of all of the business assets of Mironuck Pharmacies Ltd. for cash consideration of \$534,700. The purchaser assumed lease obligations of \$11,365. \$60,000 of the net proceeds are held in trust.

The following table summarizes the consideration received:

	<u>\$</u>
Cash received	474,700
Cash held in trust	60,000
Lease obligation assumed	11,364
Transaction costs	<u>(16,000)</u>
Net Proceeds on disposition	<u>530,064</u>
Book value of assets disposed of	<u>(473,819)</u>
Gain on disposition of assets	<u>56,245</u>

**Notes to the Interim Consolidated Financial Statements**  
**Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

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**6. DISPOSITION OF MIRONUCK PHARMACIES LTD. (continued)**

The following table summarizes the assets disposed of.

	<u>\$</u>
Cash	700
Inventory	199,686
Capital assets	58,557
Prescription files	144,068
Goodwill	70,808
Net assets disposed of	<u>473,819</u>

**7. DISCONTINUED OPERATIONS**

The following table sets forth the results of discontinued operations with the disposition in May, 2007, the Company disposed of all of the business assets of Mironuck Pharmacies Ltd. and the disposition in August 2005 of Paragon South Calgary Ltd.

	<b>May 31, 2007 (3 months) \$</b>	May 31, 2006 (3 months) \$	<b>May 31, 2007 (9 months) \$</b>	May 31, 2006 (9 months) \$
<b>REVENUE</b>	256,616	490,927	975,071	1,493,724
COST OF SALES	192,171	354,711	674,896	1,135,745
GROSS PROFIT	<u>64,445</u>	<u>136,216</u>	<u>300,175</u>	<u>357,979</u>
<b>EXPENSES</b>				
Selling, general and administration	172,233	157,185	434,189	450,516
Amortization	3,043	3,458	12,343	10,509
Bank charges and interest	-	1,099	-	4,787
Interest on long-term debt	664	-	2,108	206
LOSS FROM DISCONTINUED OPERATIONS	<u>(111,495)</u>	<u>(25,526)</u>	<u>(148,465)</u>	<u>(108,039)</u>

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006

## 7. DISCONTINUED OPERATIONS (continued)

	May 31, 2007 (3 months) \$	May 31, 2006 (3 months) \$	May 31, 2007 (9 months) \$	May 31, 2006 (9 months) \$
LOSS FROM DISCONTINUED OPERATIONS	(111,495)	(25,526)	(148,465)	(108,039)
Non-cash items	3,043	3,458	12,343	10,509
Current assets	101,159	7,534	69,650	313,466
Current liabilities	(97,411)	(84,134)	(131,302)	(282,951)
OPERATING CASH FLOW FROM DISCONTINUED OPERATIONS	(104,704)	(98,668)	(197,774)	(67,015)

## 8. CAPITAL ASSETS

	May 31, 2007		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Furniture and fixtures	655,446	293,770	361,676
Automotive	180,426	90,580	89,846
Equipment	54,173	17,259	36,914
Computer equipment	559,282	268,539	290,743
Computer software	114,161	97,193	16,968
Assets under capital lease	214,724	52,901	161,823
Leasehold improvements	984,400	545,458	438,942
	2,762,612	1,365,700	1,396,912

  

	August 31, 2006		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Furniture and fixtures	618,814	336,140	282,674
Automotive	131,689	48,045	83,644
Equipment	19,366	8,768	10,598
Computer equipment	525,263	301,116	224,147
Computer software	123,099	62,272	60,827
Assets under capital lease	257,830	93,923	163,907
Leasehold improvements	1,070,181	527,075	543,106
	2,746,242	1,377,339	1,368,903

## 9. INTANGIBLE ASSETS

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006

	<b>May 31, 2007</b>		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Prescription files	7,945,816	2,993,615	<b>4,952,201</b>
Pre-operating costs	27,823	9,414	<b>18,409</b>
Operating leases	466,551	205,410	<b>261,141</b>
Deferred financing costs	1,808,281	87,537	<b>1,720,744</b>
	<u>10,248,471</u>	<u>3,295,976</u>	<u><b>6,952,495</b></u>
	<b>August 31, 2006</b>		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Prescription files	7,245,105	2,270,100	<b>4,975,005</b>
Pre-operating costs	27,826	1,728	<b>26,098</b>
Operating leases	466,551	75,442	<b>391,109</b>
Deferred financing costs	70,000	4,667	<b>65,333</b>
Non-competition agreements	10,000	10,000	-
	<u>7,819,482</u>	<u>2,361,937</u>	<u><b>5,457,545</b></u>

Deferred financing costs include expenses of debt financings undertaken by the Company including commissions, legal fees and other direct costs of financing. The deferred financing costs are amortized over the term of the related debt and/or advance.

**10. GOODWILL**

	<b>May 31, 2007</b>
	\$
Opening Balance – August 31, 2006	<b>12,420,709</b>
Acquisition of Nordic Pharmacies Inc. (Note 5)	<b>956,846</b>
Sale of Mironuck Pharmacies Ltd. (Note 6)	<b>(70,808)</b>
Closing Balance - May 31, 2007	<u><b>13,306,747</b></u>

**11. DUE FROM (TO) RELATED PARTIES**

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006

	May 31, 2007 \$	August 31, 2006 \$
ACO Super Drug Mart Ltd.	(89,942)	(67,392)
Catalyst Healthcare Ltd.	-	96,904
1036985 Alberta Ltd. (Cochrane Super Drug Mart)	450,428	184,058
Super Drug Mart Partnership	8,399	384,114
	<u>368,885</u>	<u>597,684</u>

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.

**12. LONG-TERM DEBT**

	May 31, 2007 \$	August 31, 2006 \$
Toronto Dominion Bank 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. 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.	<b>7,833,333</b>	9,333,333
Third Party Loan Agreement Non-interest bearing loan, unsecured, repayable in monthly instalments of \$83,333, due February 2008.	<b>750,000</b>	1,500,000
Nordic Pharmacy Inc. Promissory note of the Company, unsecured, bearing interest at 4.5% per annum and compounded semi-annually payable in two equal instalments, due March 2009.	<b>600,000</b>	-
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>10,257</b>	16,887

**12. LONG-TERM DEBT (Continued)**

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006

	May 31, 2007 \$	August 31, 2006 \$
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>3,742</b>	12,046
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	<b>10,204</b>	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	<b>18,973</b>	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	<b>23,470</b>	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	<b>21,603</b>	-
	<b>9,271,528</b>	10,929,461
Less current portion	<b>3,085,632</b>	3,037,853
	<b>6,185,950</b>	7,891,608

Principal payments required in each of the next five twelve month periods ended May 31 are as follows:

	\$
2008	<b>3,085,632</b>
2009	<b>2,322,820</b>
2010	<b>2,017,051</b>
2011	<b>1,843,139</b>
2012	<b>2,940</b>

## 13. CAPITAL LEASES

\$

**Notes to the Interim Consolidated Financial Statements****Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

Period ending May 31,	2008	<u>73,391</u>
	2009	<u>29,352</u>
	2010	<u>20,276</u>
	2011	<u>16,529</u>
	2012	<u>11,021</u>
Total minimum lease payments		<u>150,569</u>
Less amount representing interest at rates ranging from 3% - 18.2%		<u>13,940</u>
Balance of obligation		<u>136,629</u>
Less current portion		<u>65,860</u>
		<u><u>70,769</u></u>

**14. 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 compensation obligation with respect to two employees. The obligation requires an annual payment of \$100,000 on each of April 28, 2008 and 2009.

**Notes to the Interim Consolidated Financial Statements**  
**Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

**15. 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, common shares		
Balance, August 31, 2006	26,884,599	<b>24,525,924</b>
In October 2006, shares issued to the shareholders of Rinoa on the acquisition of Rinoa by Paragon, (Note 3)	5,299,825	<b>510,063</b>
In October 2006, issued for cash on exercise of agent options	20,420	<b>6,739</b>
In February 2007, issued for cash on private placement	5,000,000	<b>4,000,000</b>
In May 2007, issued for cash on private placement (Note 18)	3,750,000	<b>3,000,000</b>
Balance, May 31, 2007	40,954,844	<b>32,042,726</b>
	<b>May 31, 2007</b>	August 31, 2006
	\$	\$
Balance, common shares	<b>32,042,726</b>	24,525,924
Share issuance costs	<b>(3,057,004)</b>	(1,586,388)
Share capital	<b>28,985,722</b>	22,939,536

**Notes to the Interim Consolidated Financial Statements**  
**Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

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**15. SHARE CAPITAL (continued)**

*Granting of options*

During the nine month period ended May 31, 2007 the Company issued 1,055,000 options (twelve month period ended August 31, 2006 - Nil) with a weighted average exercise price of \$0.80 (August 31, 2006 - \$Nil) and 64,998 options (twelve month period ended August 31, 2006 - Nil options) with a weighted average exercise price of \$0.80 (August 31, 2006 - \$Nil) were cancelled.

20,420 options with a weighted average exercise price of \$0.20 were exercised during the nine month period ended May 31, 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 May 31, 2007 were as follows:

<b>Date Issued</b>	<b>Number of Options Outstanding</b>	<b>Exercise Price \$</b>	<b>Expiry Date</b>
February 27, 2004	152,000	1.00	February 27, 2009
December 10, 2004	98,500	1.50	December 10, 2009
June 30, 2005	200,000	1.50	June 30, 2010
	<u>550,500</u>		
November 3, 2005 (Outstanding options of Rinoa at May 31, 2007)	129,755	0.20	November 3, 2007
March 14, 2007	990,002	0.80	March 14, 2012
	<u><u>1,570,257</u></u>		

The weighted average exercise price of the options outstanding and all exercisable at May 31, 2007 is \$0.90 (August 31, 2006 - \$1.31).

**Notes to the Interim Consolidated Financial Statements**  
**Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

**15. SHARE CAPITAL (Continued)**

*Warrants*

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

<b>Date Issued</b>	<b>Number of Warrants</b>	<b>Number of Warrants Exercised</b>	<b>Number of Warrants Expired</b>	<b>Total Warrants Outstanding</b>	<b>Exercise Price \$</b>	<b>Expiry Date</b>
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
May 4, 2007	1,875,000	-	-	1,875,000	1.00	May 4, 2009
	<u>10,360,000</u>	-	-	<u>10,360,000</u>		

The weighted average exercise price of the warrants outstanding and exercisable at May 31, 2007 is \$0.97 (August 31, 2006 - \$0.97). The weighted average exercise price of the warrants issued during the nine month period ended May 31, 2007 was \$0.99 (twelve month period ended August 31, 2006 – \$0.96). The weighted average exercise price of the warrants exercised and expired during the nine month periods ended May 31, 2007 was \$Nil and \$1.50, respectively (twelve month period ended August 31, 2006 – \$Nil and \$1.28, respectively).

In conjunction with the \$3 million private placement completed in the period ended May 31, 2007, 3.750 million units were issued (Note 18) whereby the Company issued 3.750 million common shares. In addition, attached to these units was a total of 1.875 million common share purchase warrants, exercisable at \$1.00 with an expiry term of two years.

The Company determined the fair value of the 1.875 million common share purchase warrants to be \$232,688, or \$0.19 each relating to this Convertible Debenture using the Black-Scholes option pricing model using the following assumptions: Nil dividend yields, expected volatility of 37%, risk-free interest rate of 4.25% and a term of 2 years.

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 Company determined the fair value of the 2.50 million common share purchase warrants to be \$306,776, or \$0.12 each relating to this Convertible Debenture using the Black-Scholes option pricing model using the following assumptions: Nil dividend yields, expected volatility of 37%, risk-free interest rate of 4.00% and a term of 2 years.

**Notes to the Interim Consolidated Financial Statements****Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006****15. SHARE CAPITAL (Continued)**

The Company determined the fair value of the 350,000 common share purchase warrants to be \$66,965, or \$0.19 each relating to this Convertible Debenture using the Black-Scholes option pricing model using the following assumptions: Nil dividend yields, expected volatility of 37%, risk-free interest rate of 4.00% and a term of 2 years.

*Stock-based compensation*

The Company recorded compensation expense totalling \$139,676 for the three and nine months ended May 31, 2007 (August 31, 2006 - \$698,114) using a fair-value based method for stock options and warrants granted to directors, executives, employees and consultants in the consolidated statement of operations.

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

	<u>\$</u>
Contributed surplus, opening	<b>935,063</b>
Exercise of Agents Options	<b>(2,655)</b>
Stock-based compensation	<b>139,676</b>
Contributed surplus, ending	<b><u>1,072,084</u></b>

**16. INVESTMENT IN PRIVATE COMPANIES AND LOSS ON EQUITY INVESTMENTS**

The investment in private companies includes the following:

	<b>May 31, 2007</b>	<b>August 31, 2006</b>
	<b>\$</b>	<b>\$</b>
1036985 Alberta Ltd. (Cochrane Super Drug Mart)	324,309	362,800
ACO Super Drug Mart Ltd.	120,118	-
Prairie Supply Co-op	69,789	-
Catalyst Healthcare Ltd.	-	72,645
	<b><u>514,216</u></b>	<b><u>435,445</u></b>

*a) 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. In the period ended May 31, 2007 an additional investment of \$53,221 was made. The Company has recognized its portion of loss of \$91,712 for the nine months

**Notes to the Interim Consolidated Financial Statements****Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

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**16. INVESTMENT IN PRIVATE COMPANIES AND LOSS ON EQUITY INVESTMENTS  
(Continued)**

ended May 31, 2007 respectively and income of \$12,775 for the year ended August 31, 2006, in the consolidated statements of operations and in its investment on the consolidated balance sheet at May 31, 2007 and August 31, 2006, respectively.

*b) ACO Super Drug Mart Ltd.*

On April 28, 2006, the Company purchased a 50% beneficial interest in the outstanding shares of ACO Super Drug Mart Ltd. ("ACO") for \$12,325, an equity investment. In the period, an additional investment of \$131,779 was made. The Company has recognized its portion of loss of \$11,662 and \$12,325 in the consolidated statements of operations and in its investment on the consolidated balance sheet at May 31, 2007 and August 31, 2006, respectively.

*c) Catalyst Healthcare Ltd.*

The Company has recognized its cumulative portion of loss in the investment of Catalyst Healthcare Ltd. of \$72,645 and \$97,211 in the consolidated statements of operations and in its investment on the consolidated balance sheet at May 31, 2007 and August 31, 2006, respectively. Since the Company's portion of the cumulative loss exceeded its total investment, the investment was written down to \$Nil at November 30, 2006.

*d) Prairie Supply Co-op*

In November 2006, the Company purchased a share certificate for 69,789 common class A shares valued at \$1.00 per common share in Prairie Supply Co-op ("Prairie") for dividends on inventory previously purchased. All new members with Prairie are required to have an investment of three months dividends converted into common class A shares, valued at \$1.00 per share, which are redeemable upon account closure. The investment is being carried at cost. Subsequent to the period end, these shares were redeemed.

## Notes to the Interim Consolidated Financial Statements

Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006

## 17. SUPPLEMENTAL CASH FLOW INFORMATION

Cash and Cash equivalents represented by:	May 31, 2007 (3 months) \$	May 31, 2006 (3 months) \$	May 31, 2007 (9 months) \$	May 31, 2006 (9 months) \$
Cash	51,046	(13,893)	51,046	(13,893)
Term Deposits	2,302,730	-	2,302,730	-
Cash and cash equivalents	2,353,776	(13,893)	2,353,776	(13,893)
Cash - continuing operations	2,458,480	(42,711)	2,458,480	(42,711)
Cash – discontinued operations	368,095	28,818	368,095	28,818
	2,353,776	(13,893)	2,353,776	(13,893)
Interest paid	151,567	102,112	494,168	197,416

## 18. CONVERTIBLE DEBENTURE

In May 2007, the Company issued a \$20.0 million convertible debenture (“Convertible Debenture”). The Convertible Debenture has a term of 2 years and bears interest at 15% per annum, compounded and payable annually and matures in May 2009. The interest rate on the Convertible Debenture is subject to adjustment in certain circumstances and will convert into common shares under certain circumstances, or at the option of the lender. The debenture holder has the option to convert the principal amount of the debenture into equity at \$ 0.8028 per share at any time in the 2 year term of the debenture. As such, 24,912,085 shares have been reserved by the Company. Interest on the debenture, assuming no adjustment to the interest rate, over the two year term will total \$6,450,000 if the debenture is held to maturity or if the debenture is converted under the mandatory conversion provisions in the debenture agreement. In the event that the conversion is triggered due to the mandatory conversion provision, there is an interest pre-payment clause that will require the Company to compensate the debenture holder in an amount equal to the interest that would have been paid to maturity date, less interest accrued and paid to date of conversion. Subject to regulatory approval, the accrued interest will be paid in shares based on current share trading prices.. The Company has reserved an additional 8,034,380 shares to facilitate future accrued interest settlements.

The liability component and the equity component of convertible instrument were segregated on initial recognition. The value of the equity component of this debenture was determined using the Black Scholes option pricing model using the following assumptions: Nil dividend yield, expected volatility of 37%, risk-free interest rate of 4.25% and a term of 2 years. The difference between the proceeds of the debentures issued and the fair value of the equity is assigned to debt.

**Notes to the Interim Consolidated Financial Statements**  
**Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

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**18. CONVERTIBLE DEBENTURE (Continued)**

	<u>\$</u>
Convertible Debenture – debt classification	
Total proceeds of convertible debentures	20,000,000
Fair value of convertible debentures, equity component	<u>(6,321,000)</u>
Value of liability component	13,679,000
Accretion to date	<u>263,375</u>
Balance, May 31, 2007	<u>13,912,375</u>
	<u>\$</u>
Convertible Debenture – equity classification	
Fair value of convertible debentures, equity component	6,321,000
Accrued interest to be settled by the issuance of shares	<u>230,000</u>
Balance, May 31, 2007	<u>6,551,000</u>

In conjunction with the placement of the Convertible Debenture, the Company completed a private placement of 3,750,000 units for cash consideration of \$3 million (Note 15). These units are comprised of 1 common share and ½ common share purchase warrant. The share purchase warrants have an exercise price of \$1.00 per share and have a term of 2 years.

The Company incurred \$1.74 million of direct financing costs for legal fees and other expenses as deferred charges, which are being amortized over the term of Convertible Debenture (Note 9).

Funds of \$20.0 million from the Convertible Debenture financing are restricted for future acquisitions as reviewed and approved by the Board of Directors, and are not available for general use and are included in restricted cash on the Balance Sheet as at May 31, 2007. Interest of \$30,685 has accrued on these funds and is included in accounts receivable.

**19. RELATED PARTY TRANSACTIONS**

During the period ended May 31, 2007, the Company completed a \$3 million private placement (Note 15) and issued a \$20 million Convertible Debenture (Note 18). The convertible debenture is held by Canterbury Park Capital L.P. and Canterbury Park Capital (U.S.) L.P. (collectively the “Partnerships”). Canterbury Park Management Inc. (Canterbury) is the manager of The Partnerships. The Company has an Advisory agreement, for \$400,000 to be paid over a two year term commencing May 2007, with Canterbury, for ongoing consulting and advisory services. For the nine months ended May 31, 2007, the Company has paid \$32,258 to the Canterbury related to this Advisory agreement, of which \$15,591 is included in selling, general and administration expenses in the Statement of Operations and \$16,667 is included in prepaid expenses on the Balance Sheet.

**Notes to the Interim Consolidated Financial Statements**  
**Three Month Periods and Nine Month Periods Ended May 31, 2007 and 2006**

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**20. PENSION PLAN**

The Company, effective March 1, 2007, sponsors a defined contribution pension plan for its staff. The company matches employees Registered Retirement Savings Plan (“RRSP”) contributions with contributions to a Registered Pension Plan (“RPP”). RPP Contributions vest immediately and are fully transportable. The contribution of the Company is between 4% and 7% of the employee’s gross wages, dependant upon employee class and years of service and limited by the contribution made by the employee to their RRSP. There is no past service liability for this plan. Contributions made by the Company to the plan are expensed as incurred. For the three months ended May 31, 2007, the Company had contributed \$78,430.

**21. COMMITMENTS AND CONTINGENCIES**

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.

The Company is committed to a pre-payment clause on the Convertible Debenture (Note 18) that may require the Company, under certain condition, to pay an amount equal to the remaining interest due on the Convertible Debenture to the scheduled maturity date if mandatory conversion of the Convertible Debenture is triggered before the scheduled maturity date. The likelihood of the Company incurring an expense under the pre payment clause is currently not determinable and as such no accrual for this amount has been provided in the Company’s financial statements.