



PRESIDENT'S MESSAGE

January 28, 2009

As the new President of Paragon Pharmacies Limited, I am pleased to present the company's 2008-09 first quarter results to shareholders.

Our financial results continued to be influenced positively from the 2008 acquisitions of Alentex, Teulon, and Westcoast and Okanagan central fill pharmacies. Revenue for the quarter was \$21.783 million compared to \$17.677 million in the same period last year, an increase 23.2 per cent. Gross margin was up 31.3 per cent or \$7.644 million in the first quarter compared to \$5.824 million in the same period last year. Both increases are largely attributed to the 2008 acquisitions.

Operating income was \$1.772 million in the first quarter compared to \$1.260 million in the same period last year, an increase of \$0.512 million or 40.7 per cent. The net loss for the quarter was \$6.392 million compared to \$1.893 million in the same period last year. The increase was principally due to costs associated with the completion of the note conversion and share subscription agreement with Canterbury Park.

The 1st quarter of 2008-09 saw significant developments for our company, which position it well for the future. At the end of the quarter we announced the closing of the equity conversion and private placement transaction with Canterbury Park Capital L.P. and Canterbury Park Capital (US) L.P., appreciably strengthening the financial position of the company and its ability to execute its business plan.

The closing paved the way for our December 2008 announcement that Martin Weinberg, President and Senior Managing Director of Canterbury Park, was appointed as Chairman of the Board. Mr. Weinberg brings extensive private and public company experience, including development and implementation of growth and acquisition strategies in Canada and the United States. Mr. Weinberg is committed to working with the other members of the Board and senior management to grow Paragon and establish it as a leader in the provision of pharmacy services in the communities in which it operates.

Having been a director on the Paragon board since March 2008, I joined the company as President in November, having most recently served as Executive Vice President and COO for Equity Development Bank of Canada and, prior to that, Vice-President with Prospera Credit Union. I am joined by Ron Lane who is President of Store Operations. Ron has many years of pharmacy and retail experience, having previously been responsible for pharmacy and health and beauty care operations for a large Western Canadian based retailer.

As we find ourselves in what is being described as the worst global economic crisis in 80 years, we are focused on creating a company and brand that will be resilient to economic volatility. In this regard, we have embarked on a corporate-wide review of the company's operations and processes, with the view to driving positive performance in our key financial indicators of revenue, gross margin, operating and corporate costs. As part of this sweeping and intensive review, we have identified five key focus areas. They are:

- Managing the bottom line – Responding to the economic climate, management will focus on cost containment and revenue growth. This includes looking at how the company is resourced across its network with an aim to reducing staff levels, driving revenue from existing operations, new stores and completing the rebranding and integration of the Alberta network of stores;

- Inventory management –Integrating the company’s buying models and pricing strategies and moving to a one company model will allow the company to better manage its inventory;
- Organizational restructuring – Management will align the company’s resources to improve efficiencies, focus on core business activities and streamline operations;
- Information Technology – As the company moves forward with its assimilation plans, integrating operating systems and building a technology platform that allows for growth is a key priority.;
- Processes –Standardizing, integrating and streamlining Paragon’s operating processes company-wide will eliminate duplication inefficiencies and waste.

As we progress through this review, we anticipate that the results will be evident in improved company performance in future quarters and I look forward to reporting on these above focus areas in future quarterly reports.

Let me assure you that as we turn a critical eye on our internal operations, we will not lose sight of our most important asset – people, both our employees and our customers. Our dedicated and passionate employees are the core of our organization. Together we remain committed to our strategy of aligning our business with the demographic trends of Canada’s aging population and the Canadians’ desire to lead more healthy and active lifestyles. We will continue to ensure that our product offering is responsive to our customers’ needs.

Sincerely,

Lorraine McGrath
President, Paragon Pharmacies Limited

