

PARAGON PHARMACIES LIMITED**MANAGEMENT DISCUSSION & ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2007****As at December 14, 2007**

The following is a discussion of the consolidated financial condition and results of operations of Paragon Pharmacies Limited (the "Company") for the year ended August 31, 2007. This discussion and analysis should be read in conjunction with the Company's annual audited consolidated financial statements and accompanying notes for the year ended August 31, 2007. Certain accounts from the previous year have been changed to conform with the presentation of this year. The audited consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All references to dollars are in Canadian funds unless otherwise indicated.

Note: For comparison purposes, certain of the 2006 and prior quarter 2007 figures were reclassified to conform to the 2007 consolidated financial statement presentation.

FORWARD LOOKING STATEMENTS

This discussion of the consolidated financial condition and results of operations of the Company contains forward-looking statements regarding, among other things, the Company's beliefs, plans, objectives, strategies, estimates, intentions and expectations, including as they relate to its operating and financial results, capital expenditures and the ability to execute on its operating, investing and financing strategies. Consequently, actual results and events may differ materially from those included in, contemplated or implied by such forward looking statements for a variety of reasons. Forward-looking statements are subject to inherent risks and uncertainties including, but not limited to, market and general economic conditions, certain property and casualty risks, the availability to attract and retain pharmacists, the availability and terms of financing, changes in the Company's relationship with its key suppliers, competitive factors, changes in regulatory environments affecting the Company's business, and the accuracy in management's assumptions. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Investors and others should carefully consider these and other factors and not place undue reliance on these forward-looking statements. In addition, these forward-looking statements relate to the date on which they were made and the Company disclaims and has no intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

As at August 31, 2007, the Company owned and operated 19.5 stores (17.5 retail pharmacies and 2 home health care stores) in British Columbia, Alberta and Manitoba, including the 9.5 Super Drug Mart stores that were acquired on April 28, 2006. Paragon Pharmacies Ltd. amalgamated with Rinoa Enterprises Ltd. to form Paragon Pharmacies Limited on October 31, 2006 and accordingly the financial results from the acquired assets are included from the amalgamation date forward. On March 1, 2007 the Company acquired the assets of a pharmacy in Manitoba.

OVERVIEW *(continued)*

On May 9, 2007, the Company sold the assets of a pharmacy in Alberta. The Company also owns a 26.4% interest in Catalyst Healthcare Ltd. (servicing the pharmacy needs of long term care service providers) and a 50% beneficial interest in a distribution centre.

STRATEGY AND OUTLOOK

Over the past year, Paragon has focused its business and growth strategy to benefit from the demographic trends of Canada's aging population and the desire to lead a more healthy and active lifestyle. The Company is well positioned to execute on its plan to acquire pharmacy operations and grow them organically through the provision of an enhanced product and service offering and increased profitability. The Company has secured access to significant growth capital to facilitate its acquisition strategy, and has further developed its corporate infrastructure and management team in order to integrate the acquisitions and transform the Company into a leading community pharmacy services organization.

The Company has launched its new retail brand of *Paragon Community Pharmacy* as it continues to enhance its value proposition and communication with its customers. In the coming year, it expects to introduce this brand to all of the Company's retail locations. Paragon continues to develop its stores to better take advantage of the high volume of prescription customers with additional product categories including cosmetics, home health care and giftware. The Company is focused on increasing the penetration of its private label products to further enhance the product offering to customers. The development of these categories, along with its private label introductions, will continue to grow its gross margin.

The Company is enhancing its marketing programs in Alberta to continue to grow and solidify its retail operations in that market. The Company is working aggressively to upgrade its current store locations, currently operating under the Super Drug Mart banner, and move into higher margin product categories, including home health care, cosmetics, and giftware. The Company continues to focus on the growth of its pharmacy operations and position itself to capitalize on the growing prescription demand at both the retail and institutional market segments.

As part of its strategy to become a leader in the provision of long-term care pharmacy services, Paragon recently announced the acquisition of West Coast Central Fill. The Company expects to continue to seek out acquisition opportunities in this area, in addition to continuing to acquire retail pharmacies. As it continues to grow its operations, Paragon has focused on developing strategic long-term relationships with industry leaders and key suppliers, in order to streamline operations and further grow margins.

The Company has further augmented its management team during the year with the addition of product category managers, a Vice President of Operations, and a Senior Controller. It is expected that a new Chief Financial Officer will join in early 2008.

The Company expects that the foundation laid in 2007 will enable it to continue to execute its growth and acquisition plans in the years ahead, leverage the strength of its retail locations for additional organic growth, with a view of becoming a leading community pharmacy services organization.

OVERALL PERFORMANCE

Key Operating, Investing and Financials Metrics

The following provides a summary of the Company's overall performance for the year ended August 31, 2007 compared to the year ended August 31, 2006.

- Revenue from continuing operations of \$66.146 million (2006: \$37.777 million), an increase of 75.1%
- Comparable store revenue growth of 6.4%
 - Comparable store pharmacy revenue growth of 8.1%
 - Comparable store (excluding home health care) front store revenue¹ growth of 7.8%
- Gross margin as a percentage of revenue of 32.9% (2006: 30.7%), an increase of 7.1%
- Operating income of \$4.787 million (2006: \$1.930 million), an increase of 148.0%
- EBITDA² of \$2.094 million (2006: \$1.374 million), an increase of 52.4%
- EBITDA margin³ of 3.2% (2006: 3.6%), a decrease of 11.0%

¹ Front store revenue includes all non-pharmacy revenue.

² EBITDA defined as earnings before interest expense, income taxes, amortization, stock-based compensation, other items as defined, and loss from discontinued operations. (See table in the Results of Operations for calculation of EBITDA).

³ EBITDA margin defined as EBITDA divided by Revenue.

Corporate Development Highlights

- Completed amalgamation with Rinoa Enterprises Ltd., a capital pool company, on October 31, 2006 to form Paragon Pharmacies Limited publicly traded on the TSX Venture Exchange (TSXV: PGN)
- Completed private placement through Versant Partners Inc. for cash on February 16, 2007
 - \$4,000,000 in common shares at \$0.80/unit with one half warrant at \$1.00
- Acquired a retail pharmacy on March 1, 2007
- Completed \$23 million financing with Canterbury Park Capital L.P. and Canterbury Park Capital (U.S.) L.P. on May 3, 2007
 - \$3,000,000 in common shares at \$0.80 per unit with one-half warrant at \$1.00
 - \$20,000,000 of subordinated secured Convertible Debenture (debenture) with a 2 year term
 - Additional details available in Note 22 of the August 31, 2007 Consolidated Financial Statements.
- Disposed of a retail pharmacy on May 9, 2007

Management's Discussion and Analysis (continued)

OVERALL PERFORMANCE (continued)

Corporate Development Highlights (continued)

- On March 6, 2007, Paragon's banner agreements with Drug Trading Company Limited was terminated, effective June 6, 2007, under which 7 of Paragon's pharmacies in British Columbia operated under the I.D.A. name and were supplied products and services. During the last few months of the year, the Company commenced the development of the Paragon Community Pharmacy store banner and brand identity, new private label and other merchandising programs. All affected stores were converted to the new banner and programs by the end of the fourth quarter.
- Carried on extensive acquisition related activities

SELECTED ANNUAL INFORMATION

The following table provides a summary of certain selected consolidated annual financial information for the Company. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All references to dollars are in Canadian funds unless otherwise indicated.

	2007	2006 ⁵	2005 ⁵
Revenue	\$66,145,816	\$37,777,010	\$25,007,116
Operating income ¹	4,786,587	1,930,053	1,113,018
Loss before other items ²	3,043,604	1,193,640	1,524,071
- Loss per share - Basic	(\$0.09)	(\$0.07)	(\$0.17)
- Loss per share - Diluted	(\$0.09)	(\$0.07)	(\$0.17)
Net loss	3,574,929	1,622,479	1,816,392
- Net loss per share - Basic	(\$0.10)	(\$0.10)	(\$0.20)
- Net loss per share - Diluted	(\$0.10)	(\$0.10)	(\$0.20)
Total assets	57,787,270	34,055,273	10,061,143
Total long-term financial liabilities ^{3,4}	5,845,770	7,977,746	2,052,458
Cash dividends	0	0	0

Other items include:

¹ Operating income defined as income generated from store level operations before corporate expenses, amortization, interest expense, stock-based compensation, and other items as defined.

² Other items includes amalgamation cost greater than cash received, loss on equity investments, loss from discontinued operations, and loss on disposal of capital assets. Amalgamation cost greater than cash received of \$190,968 (2006 - \$Nil; 2005 - \$Nil) loss on equity investments of \$183,893 (2006: \$98,339; 2005 - \$Nil); loss from discontinued operations of \$78,232 (2006: \$165,250; 2005 - \$292,321); loss on disposal of capital assets of \$Nil (2006 - \$Nil; 2005 - \$8,868).

³ Does not include current portion of long-term financial liabilities: 2007: \$2,823,547; 2006: \$3,098,914; 2005: \$438,885.

⁴ Does not include the convertible debenture of \$14,732,500 in 2007 as it is offset by restricted cash.

⁵ For comparison purposes, certain of the 2006 and 2005 figures were reclassified to conform to the 2007 consolidated financial statement presentation.

SELECTED ANNUAL INFORMATION (continued)

2007

As of August 31, 2007, the Company owned 100% of seventeen retail pharmacies and two home health care stores; 50% of one retail pharmacy; 50% of a distribution center; and 26.4% of Catalyst Healthcare Ltd. Paragon acquired one store and sold one store maintaining a consistent store count with 2006.

In fiscal 2007, total revenue was up 75.1% and store operating income up 148.0% reflecting the first full year of operations of the Super Drug Mart stores in Alberta. Excluding the two home healthcare stores, total same store revenue was up 8.0% with pharmacy same store revenue up 8.1% and front store same stores revenue (all non-pharmacy revenue) up 7.8% reflecting the growth in the BC pharmacies. During the year, store operations generated \$4.8 million in store operating income compared to \$1.9 million in 2006.

On October 31, 2006, Paragon Pharmacies Ltd. completed the amalgamation with Rinoa Enterprises Ltd., a capital pool company, to form Paragon Pharmacies Limited publicly traded on the TSX Venture Exchange (TSXV: PGN).

In May 2007, Paragon completed a \$23 million financing with Canterbury Park providing access to funds for new acquisitions. Subsequent to year-end, the Company has completed two acquisitions with this new facility. A non-cash cost of \$2.3 million was incurred as interest expense on the convertible debenture portion of the financing.

During this initial year as a public company Paragon incurred significant costs associated with being public including legal, accounting, Internal Controls over Financial Reporting ("ICFR"), and advisory expenses. In addition, the Company continued to pursue acquisition targets and incurred various costs related to acquisition activities.

2006

2006 saw the Company's store count increase materially in size to 19.5 stores. This growth combined with continued operational improvements resulted in improved financial performance for the Company. Overall revenue was up 47.5% reflecting the increased store count and same store revenue growth of 7.0%. Gross margin rate increased 30 basis points and EBITDA margin 350 basis points. As of August 31, 2006, the Company owned 100% of seventeen retail pharmacies and two home health care stores; 50% of one retail pharmacy; 50% of a distribution center; and 28.5% of Catalyst Healthcare Ltd.

On October 31, 2005, Paragon sold its 100% interest in Paragon Central Fill Ltd. to Catalyst Healthcare Ltd. for a combination of cash and shares with Paragon owning 28.5% of Catalyst as at August 31, 2006. The Company opened a 1,312 square foot retail pharmacy in Castlegar, BC in February 2006. In April of 2006, the Company acquired, in an asset purchase, 9.5 Super Drug Mart stores and focused its attention over the remainder of the year integrating this operation with Paragon. Also during the year, the Company prepared for its amalgamation with Rinoa Enterprises Ltd., a capital pool corporation, and subsequent listing on the TSX Venture Exchange under the symbol PGN. This transaction was completed on October 31, 2006.

Management's Discussion and Analysis *(continued)*

SELECTED ANNUAL INFORMATION *(continued)*

2005

2005 saw improved operational and financial performance for the Company. Specifically, in the second half of 2005, the positive financial impact of the Company's emphasis towards improving store operations were recognized. Streamlined operations and a stronger emphasis on profitability yielded significant EBITDA growth over 2004. Corporate restructuring allowed a reduction in overhead while improving overall performance and support for future growth. As of August 31, 2005 the Company owned 100% of seven retail pharmacies, one central fill pharmacy and two home health care stores. During 2005, one retail pharmacy was closed due to site redevelopment, and two home health care stores were closed, with continuing operations consolidated into existing operations. On November 1, 2004, a third party purchased the assets and operating name and assumed the corresponding liabilities of the direct pharmacy business.

RESULTS OF OPERATIONS

The following table presents a summary of certain selected operating data and consolidated financial information for the Company.

	2007	2006	\$ Change	% Change
Revenue	66,145,816	37,777,010	28,368,806	75.1%
Gross Profit	21,740,432	11,593,531	10,146,901	87.5%
Operating Expenses ¹	16,953,845	9,663,478	7,290,367	75.4%
Operating Income	4,786,587	1,930,053	2,856,534	148.0%
Corporate Expenses	2,692,945	556,011	2,136,934	384.3%
EBITDA ²	2,093,642	1,374,042	719,600	52.4%
Stock-based compensation	200,228	698,114	(497,886)	(71.3%)
Amortization	2,158,938	1,409,420	749,518	53.2%
Interest expense ³	2,856,312	625,398	2,230,914	356.7%
Other Items ⁴	374,861	98,339	276,522	281.2%
Net loss from continuing operations	(3,496,697)	(1,457,229)	(2,039,468)	140.0%
Loss from discontinued operations	(78,232)	(165,250)	87,018	(52.7%)
Net loss	(3,574,929)	(1,622,479)	1,952,450	120.3%
EBITDA per common share				
- Basic net earnings EBITDA	\$0.06	\$0.08	(\$0.02)	(25.0%)
- Diluted net earnings EBITDA	\$0.06	\$0.08	(\$0.02)	(25.0%)
Earnings per common share				
- Basic net earnings	(\$0.10)	(\$0.10)	\$0.00	
- Diluted net earnings	(\$0.10)	(\$0.10)	\$0.00	

¹ Operating expenses include store level selling, general and administration expenses (excludes corporate expenses, amortization, interest expense, and stock-based compensation.)

² EBITDA defined as earnings before interest expense, income taxes, amortization, stock-based compensation, other items as defined, and loss from discontinued operations.

³ Interest expense includes bank charges and interest \$136,593 (2006 - \$279,695), interest on long term debt \$658,896 (2006 - \$385,133), financing costs on convertible debenture \$2,341,824 (2006 - \$Nil), and interest income of \$280,824 (2006 - \$39,430).

⁴ Other items include amalgamation costs in excess of cash received of \$190,968 (2006 - \$Nil) and loss on equity investments of \$183,893 (2006 - \$98,336).

RESULTS OF OPERATIONS *(continued)*

Revenue

Revenue is comprised of sales to customers of the Company's retail pharmacies, home health care stores and central fill pharmacies. Revenue was \$66.146 million in 2007 compared to \$37.777 million in 2006, an increase of \$28.369 million or 75.1%. Increases were a result of growth in same store revenue and a full year of revenue from the Super Drug Mart stores acquired in April 2006 and new revenue from a pharmacy acquired in March 2007.

Gross Profit

Gross profit is calculated as revenue less cost of sales. Cost of sales is comprised of the cost of goods sold through the Company's retail pharmacies, home health care stores and central fill pharmacies. Gross margin was \$21.740 million in 2007 compared to \$11.594 million in 2006, an increase of \$10.147 million or 87.5%. This was primarily a result of the acquisition of the Super Drug Mart stores acquired in April 2006 and a pharmacy acquired in March 2007. Gross margin as a percentage of sales increased 218 basis points to 32.9% from 30.7% in the same period last year.

Operating Expenses

Operating expenses include all store level selling, general and administration expenses which includes wages and benefits, occupancy, marketing, and administration/other costs and excludes all corporate expenses, amortization, interest expense, stock-based compensation, and other items as defined.

Operating expenses were \$16.954 million in 2007 compared to \$9.663 million in 2006, an increase of \$7.290 million or 75.4%. This was primarily a result of the acquisition of the Super Drug Mart stores acquired in April 2006 and a pharmacy acquired in March 2007. Operating expenses as a percentage of sales remained constant at 25.6% compared to the same period last year.

Operating Income

Operating income is income generated from store level operations before corporate expenses, amortization, interest expense, stock-based compensation, and other items as defined.

Operating income was \$4.787 million in 2007 compared to \$1,930 million, an increase of \$2.857 million or 148.0%. This was primarily a result of the acquisition of the Super Drug Mart stores acquired in April 2006 and a pharmacy acquired in March 2007. In addition, this growth is attributable to same store revenue growth of 6.4% over 2006.

Corporate Expenses

Corporate expenses include all costs related to the corporate and administration offices which includes wages, benefits, pension, occupancy, marketing, administration, and public company costs, net of stock based compensation. Corporate expenses were \$2.693 million in 2007 compared to \$0.556 million in 2006, an increase of \$2.137 million. This increase is a result of multiple factors related primarily to a full year of corporate expenses related to the Super Drug Mart acquisition, increased corporate expenditures to accommodate planned growth, the addition of public company costs, and corporate acquisition activities.

RESULTS OF OPERATIONS (continued)

Corporate Expenses (continued)

Approximately \$1.1 million of this variance is a result of incurring in 2007 a full 12 months of corporate head office costs for the Super Drug Mart locations in Alberta. In addition, \$0.364 million resulted from corporate acquisition costs written off during the year and \$0.217 million in corporate professional fees (i.e. legal and accounting) a result of the costs associated with public company reporting and activities related to the lawsuit mentioned in Note 26 of the consolidated financial statements. Increased wage costs were related to new hires, re-allocation of wage expenses, and the introduction of the new employee benefit and pension plan effective March 1, 2007 to ensure employee retention. Category Managers were expanded which enabled Paragon to further develop into more profitable product categories. Also during the year there was a re-allocation of some Senior Management wages to head office from store level to appropriately allocate their cost.

EBITDA

EBITDA defined as earnings before interest expense, income taxes, amortization, stock-based compensation, other items as defined, and loss from discontinued operations.

EBITDA was \$2.094 million in 2007 compared to \$1.374 million in 2006, an increase of \$0.720 million or 52.4%. EBITDA margin, defined as EBITDA divided by Revenue, decreased to 3.2% in 2007 from 3.6% in 2006. The reduction in EBITDA margin was a result of increased corporate costs as summarized above.

Stock based compensation

Stock based compensation was \$0.200 million in 2007 compared to \$0.698 million in 2006, a decrease of \$0.498 million or 71.3%.

Amortization

Amortization of capital and intangible assets were \$2.159 million in 2007 compared to \$1.409 million in 2006, an increase of \$0.750 million or 53.2%. This increase is primarily a result of a full year of amortization on the capital and intangible assets acquired in the acquisition of the Super Drug Mart stores on April 28, 2006, the addition of new capital and intangible assets from the acquisition of a pharmacy in March 2007, and amortization on deferred transaction costs.

Interest Expense

Interest expense is defined as bank charges and interest, interest on long-term debt and capital leases, financing costs on convertible debenture, and net of interest income.

Financing costs on the convertible debenture were comprised of accretion, accrued interest, and amortization on deferred transaction costs. These items are non-cash items. Total financing costs on the convertible debenture were \$2.342 million in 2007 compared to \$Nil in 2006 and included accretion of \$1.054 million, accrued interest of \$1.000 million, and \$0.308 million of amortization.

RESULTS OF OPERATIONS (continued)

Interest Expense (continued)

Interest expense, net of financing costs on the convertible debenture, were \$0.514 million compared to \$0.625 million in 2006, an decrease of \$0.111 million. Bank charges and interest were \$0.137 million (2006 - \$0.280 million); interest on long term debt was \$0.659 million (2006 - \$0.385 million); and interest income of \$0.281 million (2006 - \$0.039 million).

Other Items

Amalgamation costs in excess of cash received resulted during the amalgamation with Rinoa Enterprises Ltd., a capital pool company, on October 31, 2006 to form Paragon Pharmacies Limited. The loss on equity investments resulted from the Company's share of losses recognized on its equity investments in ACO Super Drug Mart Ltd. (distribution centre), 1036985 Alberta Ltd. (Cochrane Super Drug Mart), and Catalyst Healthcare Ltd. Loss on discontinued operations resulted from the Company's disposition of the assets of a pharmacy on May 8, 2007.

Amalgamation costs in excess of cash received was \$0.191 million in 2007 compared to \$Nil in 2006, loss on equity investments was \$0.184 million in 2007 compared to \$0.098 million in 2006, and loss from discontinued operations was \$0.078 million compared to \$0.165 million in 2006.

Net Loss

The net loss was \$3.575 million compared to a loss of \$1.622 million in 2006, an increase of \$1.952 million or 120.3%. Of the \$3.575 million loss, \$2.342 million is attributed to the financing costs on the convertible debenture and public company and stock based compensation costs of \$0.465 million. On a diluted basis, earnings per share were negative \$0.10 in 2007 compared to negative \$0.10 in 2006.

FINANCIAL POSITION

The following table provides a summary of certain information with respect to the Company's financial position at the end of the periods indicated

	August 31, 2007	August 31, 2006
Cash and cash "in trust"	\$2,833,569	\$1,586,331
Restricted cash	20,110,574	
Current portion of long-term debt and capital leases	2,823,547	3,098,914
Long-term debt and capital leases ¹	27,879,324	7,977,746
Net debt ²	7,758,728	9,490,329
Shareholders' equity ³	21,644,615	18,974,350
Total capitalization	29,403,343	28,464,679
Net debt: Shareholders' equity	0.36:1	0.50:1
Net debt: Total capitalization	0.26:1	0.33:1
Net debt: EBITDA ⁴	3.71:1	6.91:1
EBITDA ¹ : Cash interest expense ⁵	3.18:1	3.57:1

¹ Includes the equity portion of the Convertible debenture.

² Net debt is defined as total long term debt (including current portion), capital leases (including current portion), convertible debenture, equity portion of convertible debenture, net of cash and restricted cash.

³ Excludes the equity portion of the Convertible debenture.

⁴ EBITDA defined as earnings before interest expense, income taxes, amortization, stock-based compensation, other items as defined, and loss from discontinued operations.

⁵ Cash interest expense defined as interest on long term debt only.

OUTSTANDING SHARE DATA

The Company had 40,999,469 common shares outstanding at August 31, 2007. As at this same date, the Company had outstanding options to acquire 1,525,632 of its common shares and warrants to acquire 10,360,000 of its common shares. Further details are available in Note 17 of the Consolidated Financial Statements at August 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

At August 31, 2007 the ratio of current assets to current liabilities was 1.90:1 compared to 1.97:1 at August 31, 2006. Working capital was \$7.442 million compared to \$6.902 million at August 31, 2006.

The Company also had access to a \$2.5 million operating line with a Canadian chartered bank as at August 31, 2007. The Company utilized \$480,000 of the operating line for letter of credits.

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

The Company's principal capital requirements are to fund working capital needs, renovate existing stores and acquire new stores in connection with its expansion strategy. These capital requirements have generally been satisfied by a combination of cash flow from operations and borrowings under its term and operating loans and the issuance of common shares. During the year the Company issued a convertible debenture, the proceeds of which are restricted for future acquisitions, which would require matching senior debt in order to convert.

Subsequent to year end, the Company secured a \$7.5 million revolving loan to be used for acquisitions to be matched with the convertible debenture funds on a dollar for dollar basis. The Company continues to seek out additional senior debt financing to ensure 100% matching of the convertible debenture funds.

Operating Activities

Net cash flow generated from operating activities from continued operations was \$2.278 million compared to \$1.461 million in 2006. This difference was primarily from an increase in store level operating income.

Investing Activities

Net cash used in investing activities net of restricted cash was \$0.828 million compared to cash used of \$20.201 million in the same period last year. In 2006 cash paid on the purchase of Super Drug Mart accounted for \$18.628 million.

Financing Activities

Net cash flow from financing activities net of restricted cash was \$1.352 million compared to \$18.466 million in 2006. This decrease relates primarily due to the issuance of additional share capital and the repayment of long term debt in 2006.

Contractual Obligations

The following table presents a summary of the contractual obligations of the Company for the next five years as at August 31, 2007.

Contractual Obligations	Payments Due By Period					Total
	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	
Long-term liabilities	\$2,671,326	\$2,320,652	\$2,017,051	\$1,340,033	\$1,929	\$8,350,991
Capital leases	52,221	25,580	16,744	14,871	8,964	118,380
Operating leases	1,968,163	2,075,397	1,776,261	1,628,905	1,646,194	9,094,920
Other commitments	25,837	22,880	11,792	8,224	1,700	70,433
Total	\$4,717,547	\$4,444,509	\$3,821,848	\$2,992,033	\$1,658,787	\$17,634,724

LIQUIDITY AND CAPITAL RESOURCES *(continued)*

Canterbury Park Investment

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 matures in May 2009 and if 50% of the principal amount has not been expended within 360 days then the convertible debenture holder can seek repayment of unutilized funds and the interest rate would increase by 5%. 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 converts into 24,912,085 shares on the principal amount and 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. See Note 23 in the Consolidated Financial Statements at August 31, 2007 for further information.

Future Liquidity

Based on current operating levels and available funds, there will be sufficient means to satisfy the Company's working capital needs and debt-service requirements for the coming fiscal year. Any future acquisitions or Greenfield developments may require additional debt and equity financing while maintaining the existing covenants (see Financing Activities).

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Company has the following amounts due from related parties: ACO Super Drug Mart Ltd. (\$132,433); and 1036985 Alberta Ltd. (Cochrane Super Drug Mart) \$551,664. The amounts due are non-interest bearing, unsecured with no fixed terms of repayment. The parties are related as they have common shareholders.

During the year, the Company completed a \$3,000,000 private placement (Note 17) and issued a \$20,000,000 Convertible Debenture (Note 23). 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 up to \$400,000 to be paid over a two year term commencing May 2007, with Canterbury, for ongoing consulting and advisory services. For the year, the Company has paid \$82,258 to Canterbury related to this Advisory agreement.

During the year, the company paid \$281,683 in rent for premises leased under operating leases with related parties. These transactions are in the normal course of operations and have been recorded at the exchange amount, which is the amount agreed to by the related parties. They represent annual rent of \$282,350 in 2008, \$283,998 in 2009, \$212,539 in 2010, \$199,437 in 2011 and \$199,437 in 2012. During 2007 the Company paid a former director \$33,637 (2006 – \$14,907) for consulting services provided. These transactions are in the normal course of operations and have been recorded at the exchange amount, which is the amount agreed to by the related parties.

QUARTERLY INFORMATION

Summary of Quarterly Information

The fiscal year-end of the Company is August 31 with quarter end falling on the following dates: November 30 (Quarter 1); February 28 (Quarter 2); May 31 (Quarter 3); August 31 (Quarter 4). The following table provides a summary of certain selected consolidated financial information for the Company for each of the eight most recently completed fiscal quarters. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All references to dollars are in Canadian funds unless otherwise indicated.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenue	15,895,751	6,342,192	16,208,971	7,193,213	17,067,123	7,581,945	16,973,971	16,659,660
Loss before other items ¹	165,856	(247,923)	145,755	(507,440)	(1,016,275)	(586,335)	(2,519,211)	37,760
- Loss per share - Basic	\$0.01	(\$0.03)	\$0.00	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.06)	\$0.00
- Loss per share - Diluted	\$0.00	(\$0.03)	\$0.00	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.06)	\$0.00
Net loss	(86,051)	(270,102)	81,843	(636,879)	(1,057,624)	(649,369)	(2,513,097)	(66,102)
- Net loss per share - Basic	\$0.00	(\$0.03)	\$0.00	(\$0.04)	(\$0.03)	(\$0.02)	(\$0.06)	\$0.00
- Net loss per share - Diluted	\$0.00	(\$0.03)	\$0.00	(\$0.04)	(\$0.03)	(\$0.02)	(\$0.06)	\$0.00

Note: All information taken from Management prepared financial statements.

¹ Loss on equity investment in Q4-2007:\$7,874, Q4-2006: (\$48,219); Q3-2007: \$43,251, Q3-2006: \$75,885; Q2-2007: 34,090; Q2-2006: \$61,157; Q1-2007: 98,678; Q1-2006: \$7,948; Loss from discontinued operations of Q4-2007: gain of \$657, Q4-2006 \$62,211; Q3-2007: \$111,495, Q3-2006: \$25,526; Q2-2007: \$14,380, Q2-2006: \$68,282; Q1-2007: \$22,590, Q1-2006: \$14,231; Amalgamation costs greater than cash received of Q3-2007: \$2,203, Q2-2007: \$29,822; Q1-2007: \$158,943; Interest Income in Q4-2007 of \$178,785.

Management's Discussion and Analysis *(continued)*

QUARTERLY INFORMATION *(continued)*

Results of Operations – Fourth Quarter (Unaudited)

The following table presents a summary of certain selected operating data and consolidated financial information for the Company for the periods indicated.

	3 Months Ended		\$ Change	% Change
	August 2007	August 2006		
Revenue	16,973,971	16,659,660	314,311	1.9%
Cost of Goods Sold & Other Operating Expenses	15,892,703	15,442,312	450,391	2.9%
Operating Income	1,081,268	1,217,348	(136,080)	(11.2%)
Corporate Expenses	1,119,741	312,976	806,765	257.8%
EBITDA ²	(38,473)	904,372	(942,945)	(104.3%)
Stock-based compensation	60,552	-	60,552	
Amortization	639,661	525,833	113,828	21.6%
Interest expense ³	1,780,525	434,081	1,346,444	310.2%
Other Items ⁴	7,874	(46,651)	54,525	(116.9%)
Net loss from continuing operations	(2,527,085)	(8,891)	(2,518,194)	(28323.0%)
Loss from discontinued operations	13,986	(57,211)	71,199	(124.4%)
Net loss	(2,513,097)	(66,102)	(2,446,995)	(3701.8%)
EBITDA per common share				
- Basic net earnings EBITDA	\$0.00	\$0.03	(\$0.03)	
- Diluted net earnings EBITDA	\$0.00	\$0.03	(\$0.03)	
Earnings per common share				
- Basic net earnings	(\$0.06)	\$0.00	(\$0.06)	
- Diluted net earnings	(\$0.06)	\$0.00	(\$0.06)	

¹ Operating expenses include store level selling, general and administration expenses (excludes corporate expenses, amortization, interest expense, and stock-based compensation.)

² EBITDA defined as earnings before interest expense, income taxes, amortization, stock-based compensation, other items as defined, and loss from discontinued operations.

³ Interest expense includes bank charges and interest \$136,593 (2006 - \$279,695), interest on long term debt \$658,896 (2006 - \$385,133), financing costs on convertible debenture \$2,341,824 (2006 - \$Nil), and interest income of \$280,824 (2006 - \$39,430).

⁴ Other items include loss on equity investments of \$0.008 million (2006 - \$0.048 million gain); loss from discontinued operations was a gain of \$0.001 million (2006 - \$0.057 million).

Revenue

Revenue is comprised of revenue to customers of the Company's retail pharmacies and home health care stores. Revenue in the fourth quarter of 2007 was \$16.974 million compared to \$16.660 million in 2006, an increase of 1.9% or \$0.314 million. This increase was due to greater revenue from the recently acquired pharmacy compared to the recently disposed of pharmacy and some same store revenue growth.

Results of Operations – Fourth Quarter *(continued)*

Cost of Goods Sold and Other Operating Expenses

Cost of sales is comprised of the cost of goods sold through the Company's retail pharmacies and home health care stores. Other operating expenses include all store level selling, general and administration expenses which includes wages and benefits, occupancy, marketing, and administration/other costs and excludes all corporate expenses, amortization, interest expense, stock-based compensation, and other items as defined.

Cost of good sold and other operating expenses in the fourth quarter of 2007 were \$15.893 million compared to \$15.442 million on 2006, an increase of 2.9%. Gross margin as a percentage of sales increased 472 basis points to 32.7% from 28.0% in the same period last year. Other operating expenses as a percentage of sales increased to 26.4% from 20.7% in the same period last year.

Operating Income

Operating income is income generated from store level operations before corporate expenses, amortization, interest expense, stock-based compensation, and other items as defined.

Operating income was \$1.081 million in the fourth quarter of 2007 compared to \$1.217 million, a decrease of \$0.136 million or -11.2%. This was primarily a result of increased operating expenses due to corporate development activity.

Corporate Expenses

Corporate expenses include all costs related to the corporate and administration offices which includes wages and benefits, occupancy, marketing, administration/other, and public company costs, net of stock based compensation.

Corporate expenses were \$1.120 million in the fourth quarter of 2007 compared to \$0.313 million in 2006, an increase of \$0.807 million or 257.8%. This increase is a result of increased corporate overhead costs to accommodate planned growth, the introduction of the new employee benefit and pension plan effective March 1, 2007 to ensure employee retention, and the expensing of certain acquisition costs. Corporate professional fees (i.e. legal and accounting) in the fourth quarter of 2007 were \$0.149 million, compared to \$0.114 million in 2006, an increase of \$0.034 million or 30.0%. This increase is primarily a result of the costs associated with public company reporting and activities related to the lawsuit mentioned in Note 26 of the consolidated financial statements. Other additional corporate expenses in 2007 included monthly advisory fees and additional public company costs.

EBITDA

EBITDA defined as earnings before interest expense, income taxes, amortization, stock-based compensation, other items as defined, and loss from discontinued operations.

EBITDA was negative \$0.038 million in the fourth quarter of 2007 compared to \$0.904 million in 2006, a decrease of \$0.943 million or -104.3%. EBITDA margin, defined as EBITDA divided by Sales, decreased to negative 0.2% in 2007 from 5.4% in 2006. This decrease relates primarily to the additional corporate expenses, as detailed above, incurred in 2007 compared to 2006.

Results of Operations – Fourth Quarter (continued)

Stock based compensation

Stock based compensation was \$0.061 million in the fourth quarter of 2007 compared to \$Nil million in 2006.

Amortization

Amortization of capital and intangible assets were \$0.640 million in the fourth quarter of 2007 compared to \$0.526 million in 2006, an increase of \$0.114 million or 21.6%.

Interest Expense

Interest expense is defined as bank charges and interest, interest on long-term debt and capital leases, financing costs on convertible debenture, and net of interest income.

Financing costs on the convertible debenture were comprised of accretion, accrued interest, and amortization on deferred transaction costs. These items are non-cash items. Total financing costs on the convertible debenture were \$1.761 million in 2007 compared to \$Nil in 2006 and included accretion of \$0.790 million, accrued interest of \$0.750 million, and \$0.221 million of amortization.

Interest expense, net of financing costs on the convertible debenture, in the fourth quarter of 2007 was \$0.019 million compared to \$0.434 million in 2006, a decrease of \$0.415 million. Bank charges and interest were \$0.034 million (2006 - \$0.247 million); interest on long term debt was \$0.164 million (2006 - \$188 million); and interest income of \$0.179 million (2006 - \$0.039 million).

Other Items

The loss on equity investments resulted from the Company's share of losses recognized on its equity investments in ACO Super Drug Mart Ltd. (distribution centre), 1036985 Alberta Ltd. (Cochrane Super Drug Mart), and Catalyst Healthcare Ltd. Loss on discontinued operations resulted from the Company's disposition of the assets of Mironuck Pharmacy Ltd. (Canmore, AB) on May 8, 2007.

Loss on equity investments was \$0.008 million in the fourth quarter of 2007 compared to a gain of \$0.048 million in 2006, and gain (loss) from discontinued operations was a gain of \$0.001 million in the fourth quarter of 2007 compared to a loss of \$0.057 million in 2006.

Net Loss

The net loss was \$2.513 million compared to a loss of \$0.066 million in 2006, an increase of \$2.447 million or 3701.8%. On a diluted basis, earnings per share were negative \$0.06 in 2007 compared to \$0.00 in 2006.

SUBSEQUENT EVENTS

Acquisitions

On November 1, 2007 the Company closed the acquisition of all the outstanding shares and business assets of a pharmacy for aggregate cash consideration of \$3,400,000 (subject to certain post-closing adjustments).

On December 7, 2007, the Company announce that it has entered into a purchase and sale agreement (the "Agreement") to acquire all of the assets of Westcoast Central Fill Ltd. ("Westcoast") from Westcoast and its parent, Catalyst Healthcare Ltd. ("Catalyst"). The total purchase price for the Westcoast assets is \$5,750,000, subject to adjustments.

Paragon currently owns 2,800,000 shares (26.4%) of Catalyst. Pursuant to the Agreement, payment of the purchase price will consist of \$2,950,000 in cash and the cancellation of the 2,800,000 shares that Paragon holds in the capital of Catalyst at a price of \$1.00 per share. Closing of this transaction is subject to receipt of all necessary third party consents and regulatory approvals.

Funding for the above acquisitions comes 50% from the restricted cash (Note 22) and 50% from the debt facility below.

TD Bank Agreement

On December 10, 2007 the Company entered into a new debt facility with the Toronto Dominion Bank. This facility includes an increase in the committed operating loan from \$2,500,000 to \$3,000,000, the existing reducing term loan of \$6,833,333 and an added revolving acquisition loan of \$7,500,000. All of these facilities have a two year term.

CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies during the quarter. The accounting policies of the company are as outlined in the financial statements for the year ended August 31, 2007.

ESTIMATES

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for items such as inventory provisions, , income and other taxes and testing goodwill and long-lived assets for impairment. Changes in those estimates could materially affect the consolidated financial statements

REGULATORY CHANGES THAT IMPACT THE COMPANY'S INDUSTRY

Considerable attention is being paid by governments, at both the federal and provincial levels, to generic drug manufacturers' marketing practices and their influence on retail prices across Canada. A study by the Competition Bureau concluded that rebates paid to pharmacies for stocking generic products are not fully reflected in retail prices. The bureau is considering various options to address this situation including further use of competitive tendering processes (now employed in Saskatchewan). The bureau's findings are disputed by industry stakeholders such as the Canadian Association of Chain Drug Stores (CACDS) which points out that allowances from generic suppliers provide funding for patient-related activity in pharmacies and help narrow the gap between dispensary operating costs and reimbursement levels from public and private drug payers.

The British Columbia government has still not responded to last year's activity-based cost survey which found a \$5.00-per-prescription shortfall for pharmacies between what PharmaCare pays them to dispense drugs and their actual expenses. Dispensing fees have been frozen in BC for four years. The government recently appointed a nine-member Pharmaceutical Task Force to examine key policy areas, including the procurement of generics, and bring forward recommendations by January 31, 2008. Meanwhile, the College of Pharmacists of BC has developed a professional practice policy on medication management and provincial pharmacy stakeholders are seeking government reimbursement for professional services apart from dispensing as introduced recently in Ontario.

Alberta's Health and Wellness Minister has shelved, for the time being, a new pharmaceutical strategy aimed at assuring the sustainability of that province's drug coverage for seniors and low-income citizens. It will likely not be released before the next election expected in the spring of 2008. Premier Ed Stelmach has promised full consultation with stakeholders on the strategy blueprint before then. The Alberta government is moving forward with a smoking-reduction strategy that includes a ban on the sale of tobacco in pharmacies effective January 1, 2009.

The governments of Alberta and BC jointly agreed in May to explore possible opportunities for collaborating to save costs in procuring pharmaceutical drugs and medical devices. The first possible area being examined is blood glucose monitoring supplies. Adopting a joint tendering process would potentially limit the choice of treatment methods for many diabetic patients and also disrupt investment by manufacturers in pharmacies' patient-outreach programs. Various industry associations (including CACDS) are involved in presenting less-disruptive options for the two provinces to consider in tackling the dramatic rise in the incidence of diabetes.

Manitoba is moving closer to adopting changes in its Pharmaceutical Act to broaden the scope of practice, allowing pharmacists to prescribe and administer some drugs and order some tests (as now permitted in Alberta) and to permit the operation of satellite pharmacy facilities. One contentious reform would prohibit the application of retailers' loyalty programs to government-funded prescription sales. The final version of the new regulations was expected to be tabled in December and formally ratified by government in early 2008.

REGULATORY CHANGES THAT IMPACT THE COMPANY'S INDUSTRY *(continued)*

Ontario's adoption of the Transparent Drug System for Patients Act has created challenges for pharmacies in that province. Business relations between pharmacy and both generic and brand-name drug manufacturers have changed dramatically. The government did acknowledge that its onerous restrictions on allowances paid to retailers would adversely impact on their bottom-line performance, and as a partial offset it implemented a \$50-million fund to pay pharmacists for certain professional services (beginning with medication reviews). Currently, the Company does not own or operate any pharmacies in Ontario. Management is watching closely as other provinces consider similar measures to reduce drug program costs.

Ottawa and all provinces except Quebec remain committed to pursuing a National Pharmaceuticals Strategy (NPS) which is now focused on options for catastrophic drug coverage and examining possible common standards for purchasing generic drugs. Although the federal government's Throne Speech in mid-October did suggest Ottawa would no longer fund joint programs in areas of provincial domain such as health care, activities initiated by the NPS secretariat continue to move forward.

Management is closely monitoring these developments and others at the federal and provincial levels. The Company's emphasis on value-added patient care and customer service positions it well for adjusting to whatever impact such measures as restrictions on allowances paid by generic manufacturers and further curtailment of tobacco sales have on operating revenues.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Multilateral Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, requires the President and Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO") of the Company, to file annual and quarterly certificates certifying that they are responsible for establishing and maintaining controls and procedures for the Company, and that they have designed such disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is made known to them by others within the Company during the period in which the interim filings are being prepared.

In compliance with Multilateral Instrument 52-109, management must disclose in its MD&A any material weakness found to exist within its system of internal control over financial reporting. During the fourth quarter of the current fiscal period, the Company engaged an outside consulting group to review and assist in the evaluation of the internal controls of the Company. Through this process, management has identified a material weakness during the year in lack of segregation of duties. The management group of the Company is small and full segregation of all duties has not been possible throughout the year. This is a typical issue for smaller companies, and while the Company has experienced significant growth during 2006 and 2007 to date, and has added additional staff during the year which strengthens the segregation of duties, there still exists a lack of such segregation of duties. Management believes, however, that the risks associated with the lack of segregation of duties during part of the year have been mitigated by the implementation of other controls.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING *(continued)*

As part of the purchase of the Super Drug Mart stores in April, 2006, the company purchased an IT platform shared with another party. As such, the company does not have complete control over this platform and management had identified this as a material weakness at the time of the acquisition. As of August, 2007, the company continued to use this IT system and recognized the material weakness involved. Management believes, however, that the risks associated with the weakness are mitigated by the implementation of other controls. The Company has a formal plan in place to implement safeguards in the IT system to eliminate this deficiency by the end of the second fiscal quarter.

The CEO and CFO believe controls and procedures have been designed to provide reasonable assurance that all information is made known to them and the reliability of the financial reporting and the preparation of financial statements for external purposes.

The Company has qualified senior accounting personnel engaged on a full time basis to manage the Company's financial disclosures. The Board of Directors together with the Audit Committee have direct oversight responsibilities for the review and approval of the quarterly and annual financial disclosures.

RECENT ACCOUNTING PRONOUNCEMENTS

Beginning in fiscal year 2008, the Company will be required to adopt new CICA Handbook section 1530 "Comprehensive Income", section 3251 "Equity", section 3855 "Financial Instruments – Recognition and Measurement" and section 3865 "Hedges" as issued by the Canadian Institute of Chartered Accountants. Under these sections a new financial statement, "Consolidated Statement of Other Comprehensive Income", has been introduced that provides for among other things, that foreign currency translation adjustments and other amounts relating to changes in value be temporarily recorded outside the income statement. In addition, these new standards emphasize the use of fair value as the basis of accounting and disclosure. The Company is evaluating the impact of these new standards, but management does not anticipate that this will have a material impact on the Company's financial position or results of operations.

Beginning in fiscal 2008 the Company will be required to adopt Section 1506 "Accounting Changes" the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3862 "Financial Instruments Disclosures" and Section 3863 "Financial Instruments Presentation" which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on November 1, 2007 and it is expected the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

As of January 1, 2008 the Company will be required to adopt CICA Handbook section 1535, "Capital Disclosures", which requires entities to disclose their objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The company is assessing the impact of this new standard on its consolidated financial statements and anticipates that the main impact will be in terms of additional disclosures required.

RECENT ACCOUNTING PRONOUNCEMENTS *(continued)*

As of November 1, 2007, the Company will be required to adopt *CICA Handbook Section 3031, Inventory*. This new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after July 1, 2007. This new standard will have no impact on the Company's consolidated financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

NON-GAAP FINANCIAL MEASURES

The Company reports its financial results in accordance with Canadian GAAP. However, the foregoing contains references to non-GAAP financial measures, such as operating margin, EBITDA (earning before stock-based compensation, interest, taxes, depreciation and amortization, loss from discontinued operations, loss on equity investments, amalgamation costs greater than cash received and interest income), EBITDA margin and cash interest expense. Non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

These non-GAAP financial measures have been included in this Management's Discussion and Analysis as they are measures which management uses to assist in evaluating the Company's operating performance against its expectations and against other companies in the retail drug store industry. Management believes that non-GAAP financial measures assist in identifying underlying operating trends.

These non-GAAP financial measures, particularly EBITDA and EBITDA margin, are also common measures used by investors, financial analysts and rating agencies. These groups may use EBITDA and other non-GAAP financial measures to value the Company and assess the Company's ability to service its debt.