The Jean Coutu Group (PJC) Inc.

2007 Annual Report

Table of Contents

Report to shareholders
4th quarter and year end results

The Jean Coutu Group is pleased to report its financial results for the fourth quarter and fiscal year ended June 4, 2007.

For the fourth quarter, the Company reported a net loss of $6.9 million ($0.03 per share) compared with net earnings of $30.3 million ($0.12 per share) for the fourth quarter of fiscal 2006 and $184.0 million ($0.70 per share) for the third quarter of the current year. Earnings before specific items were $19.4 million ($0.07 per share) compared to $41.5 million ($0.16 per share) for the fourth quarter fiscal 2006 and $39.8 million ($0.15 per share) for the third quarter of the current year.

Canadian network sales and operating performance continued to improve during fiscal 2007 while US sales performance was acceptable despite challenges prior to the closing of the Rite Aid Corporation (“Rite Aid”) transaction. On June 4, 2007, the Company completed the sale of its United States network and now holds a 32% common equity interest in Rite Aid. The gain on sale of US operations amounted to $139.3 million ($76.6 million after-tax), and the Company recorded restructuring charges of $54.3 million ($31.6 million after-tax). The loss on early debt retirement when debt was repaid using cash consideration from the Rite Aid transaction amounted to $168.3 million ($117.5 million after-tax). The current fiscal year exceptionally contains 53 weeks and 2 days to reflect the sale of US operations.

Fiscal 2007 net earnings were $140.8 million ($0.54 per share) compared with $103.8 million ($0.40 per share) in fiscal 2006. Earnings before specific items were $107.8 million ($0.41 per share) compared to $114.7 million ($0.44 per share) for the previous fiscal year.

Total revenues increased to $2.882 billion for the fourth quarter ended June 4, 2007 compared with $2.875 billion for the corresponding period last year. On a same store basis, when compared with the fourth quarter last year, sales advanced by 6.4% in Canada and decreased 1.0% in the United States. For fiscal 2007, the same store sales growth figures were 6.8% in Canada and 1.3% in the United States. The impact of generic drugs replacing brand drugs on US pharmacy sales growth was 6.1% for the fourth quarter and 4.4% for fiscal 2007. Total revenues for fiscal 2007 increased by $532.5 million or 4.8% to $11.676 billion from $11.143 billion in fiscal 2006.

Fiscal 2007 fourth quarter operating income before amortization (“OIBA”) was impacted by certain restructuring charges principally related to the transition pay program associated with the transaction. OIBA before restructuring charges increased to $130.2 million in the fourth quarter ended June 4, 2007 from $129.9 million in the fourth quarter ended May 27, 2006 and ended both periods at 4.5%. OIBA before restructuring charges increased in the fiscal year ended June 4, 2007 to $533.0 million from $496.6 million in the fiscal year ended May 27, 2006, in part due to the additional days in fiscal 2007.

OIBA for the Company's Canadian operations for the fourth quarter ended June 4, 2007 increased to $49.4 million compared with $41.8 million for the fourth quarter ended May 27, 2006, an increase of 18.2% or 17.1% in local currency, due to strong top line growth. OIBA as a percentage of revenues in local currency ended the quarter at 10.1% compared with 9.4% in 2006. OIBA increased in the fiscal year ended June 4, 2007 to $191.0 million from $165.0 million in the fiscal year ended May 27, 2006.

OIBA before restructuring charges for US operations decreased to $80.8 million this quarter from $88.1 million for the equivalent period last year, reflecting challenges prior to the closing of the Rite Aid transaction. OIBA before restructuring charges increased in the fiscal year ended June 4, 2007 to $342.0 million from $331.6 million in the fiscal year ended May 27, 2006.

On June 4, 2007, the United States network of 1,854 corporate drugstores was sold to Rite Aid. As at the year-end date, there were 328 stores in the system, comprised entirely of Canadian PJC Jean Coutu drugstores.

The Board of Directors of the Company declared a quarterly dividend of $C 0.04 per share which represents an increase of 33.3% over the dividend paid the previous quarter. This dividend is payable on August 30, 2007 to all holders of Class A subordinate voting shares and holders of Class B shares listed in the Company's shareholder ledger as of August 16, 2007. On an annual basis, this represents a dividend of $C 0.16 per share. This dividend increase demonstrates the Company's commitment to maximizing shareholder value and total shareholder return.

Demographic trends in Canada and the United States are expected to contribute to growth in the consumption of prescription drugs, and to the increased use of pharmaceuticals as the primary intervention in individual healthcare. Management believes that these trends will continue and that the Company will achieve sales growth through differentiation and quality of offering and service levels. We will continue to build on our position as one of the leaders in the Canadian drugstore market by operating our network with a focus on sales growth, our real estate program and operating efficiency. With our leading ownership position in the expanded Rite Aid, we are able to better participate in the growing U.S. drugstore industry.

The Company announced that the independent members of the Board of Directors, on the recommendation of the Human Resources Committee, have approved a succession plan whereby I will be replaced in the role of President and Chief Executive Officer by Mr. François J. Coutu. This appointment will take effect following the Annual General Meeting of shareholders scheduled for October 16, 2007. Following this appointment, I will continue in the role of Chairman of the Board of the Company.

I am very pleased to have my son François succeed me in this role. Following the sale of its US operations to Rite Aid, the Company is preparing to reach new heights. Under the leadership of François, the operating and financial results of the Canadian operations have been strong for many years and attest strong, sound management and sustained efforts from his team. I am convinced that under his leadership, the Company will pursue its next phases of development with enthusiasm and that new growth and expansion opportunities will again be pursued.

Finally, we would like to thank all of our employees for their perseverance and efforts in what was a transformational year. We also thank our franchisees, shareholders, and customers for their unwavering support and trust. All of our stakeholders are a lasting source of motivation for us in the pursuit of our growth and value creation goals.

Yours truly,

/S/ Jean Coutu

Jean Coutu
Chairman of the Board,
President and Chief Executive Officer

COMPANY PROFILE

The Jean Coutu Group (PJC) Inc. ("the Company" or the "Jean Coutu Group") exercises its activities in the North American drugstore retailing industry in Eastern Canada through franchised drugstores under the banners of PJC Jean Coutu, PJC Santé Beauté and PJC Clinique, and until June 4, 2007, in Eastern United States through corporate drugstores under the banners of Brooks and Eckerd. On June 4, 2007, the US network of 1,854 corporate drugstores was sold to Rite Aid Corporation (''Rite Aid'').

As at June 4, 2007, our Canadian network of PJC Jean Coutu franchised stores (''PJC'') consists of the following types of stores:

	2007	2006
Total stores	328	327
Freestanding stores or buildings	82	80
Drive-thru pharmacies	25	25

CANADA

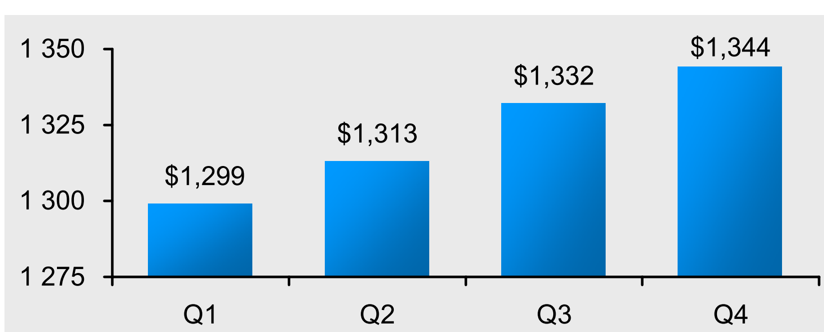
Profile of the Canadian network of franchised stores

The Jean Coutu Group is a leading pharmacy chain in Canada with 328 stores in Québec, Ontario, and New Brunswick. Our franchising activities include operating two distribution centers and providing services to our PJC stores. These services comprise centralized purchasing, distribution, marketing, training, human resources, management, operational consulting and information systems, as well as participation in our private label program. Our PJC franchisees own and manage their stores and are responsible for merchandising and financing their inventory. They must provision their stores from our distribution centers, provided that the products requested are available and priced lower or equal to other suppliers. We supply our PJC franchisees with approximately 75% of their products, including almost all prescription drugs. Although PJC retail sales are not included in our revenues, an increase or decrease in this regard will directly affect our performance as it impacts distribution center sales and royalties.

The PJC Jean Coutu drugstores filled 55.2 million prescriptions during fiscal 2007, for a weekly average of 3,187 scripts per store. Our position as pharmacy leader can be attributed to the commitment and professionalism of our pharmacists-owners, the quality of the professional services provided and the geographic location of our stores.

The front-end of our drugstores is focussed on customer wellness, offering a full choice of health and beauty products. Furthermore, approximately 9% of our front-end retail sales come from over 2,300 private label or exclusive products. These popular products are known to represent excellent value and help enhance margins, customer traffic and loyalty. In addition, there are full service postal outlets in 53 of our network's drugstores.

Canadian Network – Retail sales per square foot
(in Canadian dollars)



2007

Retail sales per square foot is a key performance indicator. By measuring last twelve-month total store sales divided by average square footage, the Company's management measures network performance. Sales growth is driven by the successful execution of the Company's strategies, as discussed herein.

The PJC drugstore network retail sales per square foot has grown each quarter over the past year, to $C 1,344 per square foot for the fourth quarter, which we believe is top in our market. The average PJC drugstore is a leader with annual sales of $C 10.6 million.

2007 Strategic Initiatives

Expansion and modernization of the Canadian network
In fiscal 2007, we expanded our Canadian network with the opening and relocation of 9 stores. In addition, 18 stores were renovated or expanded.

We continued to pursue the development of store planograms in order to enhance our sales environment and to showcase products in attractive areas conducive to meeting customer needs. These new tools are crucial components and support our marketing strategies aimed at increasing pharmacy, front-end and seasonal sales in our Canadian network.

Most admired company in Québec
For the fourth year in a row, The Jean Coutu Group was ranked first among the most admired companies in Québec in a survey conducted by Leger Marketing for Commerce magazine. The consulted population is almost unanimous in their positive opinion of the Company, which the survey says is attributable to The Jean Coutu Group's relentless focus on quality, service and variety of product offer. We continue to work hard to remain Number 1 in the hearts of our clients and an example of our drive to stay close to customers and their families is the introduction of the PJC Jean Coutu Health patrol. Our team visited many local ski centers in fiscal 2007, where our animators offered health and security advice in a fun atmosphere.

Pharmacy services
One of The Jean Coutu Group's key strategies is to be recognized as the Number 1 Health destination in our market. The Diabetes Information Kits as well the 'Quit to Win' Smoking Cessation Kits were exclusively distributed at PJC drugstores during fiscal 2007. These kits are extremely popular amongst our patients and with new clients, since they integrate useful information on key health issues. During fiscal 2007, we also launched a print media campaign reminding customers to use their PJC Health Records. The Health Record is a convenient, one-stop wallet sized summary of a patient's prescriptions that clients can use during doctor or hospital visits. Finally, we installed life size publicity standees in our network of drugstores displaying timely monthly reminders of key professional services. The PJC network is working hard to offer first class services to its pharmacy customers and as a result continues to gain market share.

Ontario distribution center
Our warehouse located in Ontario began its second year of operations during fiscal 2007. Currently, all health, beauty and cosmetic products are distributed using this facility. The Company was also able to use this warehouse to rapidly ramp up its import program.

Advertising
A television ad campaign comprising three new commercials was introduced in 2007. This campaign helped reinforce PJC's brand awareness. We also maintained a strong presence on local radio stations.

AIR MILES® Reward Program
Valued by our customers, the AIR MILES® Reward Program is a key advantage for The Jean Coutu Group since it is the only pharmacy network in Québec to offer it. During fiscal 2007, we launched a new phase of the AIR MILES® Instant Redemption Program. Customers can now instantly redeem their reward miles for purchases at Jean Coutu drugstores, with a substantial increase in customer average basket purchase for this type of transaction. Being part of the AIR MILES® sponsor coalition allows our loyal AIR MILES® customers to accumulate their reward miles faster than any other stand alone loyalty program. In addition, customers appreciate the new convenient redemption feature exclusive to our drugstore network.

Cosmetics
Eleven new Boutiques Passion Beauté were added to our network during the year, for a total of 38 boutiques covering about 12% of the network at the end of fiscal 2007. This initiative is in line with our goal of making our drugstores into destinations focussed on customer wellness, while at the same time increasing our sales in this promising growth market. Also, we continued to innovate in our cosmetics department, offering clients a new ‘‘Beauty Brands’’ section, featuring selected skin, anti-wrinkle and beauty care products.

Photo Solutions
We are known as a leading destination for photo services, providing customers with rapid and accessible solutions such as in-store digital kiosks and print facilities, as well as web upload services. In fiscal 2007, The Jean Coutu drugstore network continued to build market share in the photo subcategory and has become the leading retail digital photo destination in Québec.

Private Label and Exclusive Lines Programs
During fiscal 2007, we launched many new products in our *Personnelle* private label line and are pursuing the development of both our private label and exclusive lines. Each year, new products are introduced, always emphasizing health, beauty and cosmetics, an area with promising potential.

New Initiatives in 2008

In fiscal 2008, we expect that sales of pharmacy, health-related, beauty and seasonal products will continue to increase. We will grow sales by assisting our network in implementing tailored and targeted marketing initiatives better suited to local needs. In 2008, our network of stores will strive to offer more in-store counselling services while the Company continues to implement other initiatives including the seasonal import products program. Investments will also target staff training so as to improve operating efficiency while delivering high quality service throughout the network.

New and renovated PJC Jean Coutu drugstores and the rollout of new development tools should assist in increasing sales while continuing the expansion of a high quality network. We plan to continue to develop and improve our network by investing in its stores while implementing leading technologies that enable us to increase revenues, identify optimal store locations and enhance the value of our property holdings. In the twelve-month period beginning June 5, 2007, we plan to open 8 new stores and relocate 11 stores, and complete 44 store renovation and expansion projects. We also plan to open 20 Boutiques Passion Beauté.

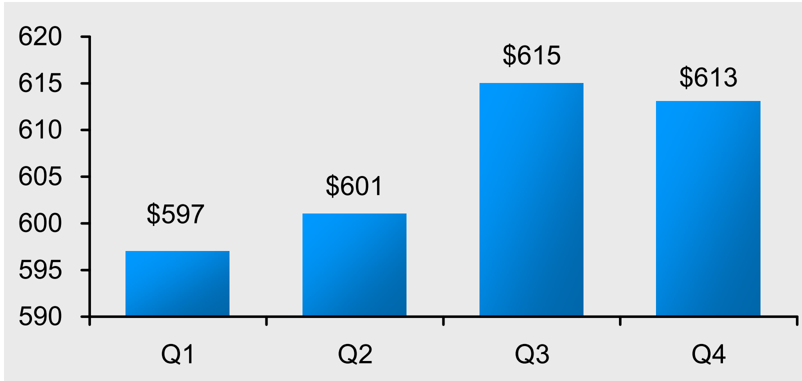
Finally, we will continue to promote the PJC Jean Coutu brand and make the most of the INSTANT AIR MILES® REWARDS program to increase customer loyalty. We will continue to offer innovative promotions to allow us to optimize this program’s potential and grow network sales.

UNITED STATES

Profile of the US network of corporate-owned stores

The US network comprised 1,854 corporate-owned stores operating under the Brooks Pharmacy and Eckerd Pharmacy banners and 6 distribution centers in 18 states in the eastern United States (1,858 corporate drugstores and 6 distribution centers in 2006). On June 4, 2007, the Company sold its interest in the Brooks and Eckerd corporate outlets for cash and an equity interest in Rite Aid, which now operates a network of approximately 5,100 corporate drugstores engaged in retail pharmacy in the United States. Readers are referred to Note 4 of the Consolidated Financial Statements as well as to the Risks and uncertainties section of Management’s Discussion & Analysis for more information.

United States Network – Retail sales per square foot
(in US dollars)



2007

Retail sales per square foot is a key performance indicator. By measuring last twelve-month total store sales divided by average square footage, the Company's management measures network performance. Sales growth is driven by the execution of the Company's strategies, as discussed herein. The Brooks Eckerd network retail sales per square foot amounted to $613 in the fourth quarter of fiscal 2007.

2007 Strategic Initiatives

With the announcement of the sale of the Brooks Eckerd network to Rite Aid early in fiscal 2007, our strategy was focussed on continuing to maintain and grow the network's sales and script base.

Pharmacy
The pharmacy part of the business saw continued emphasis on enhancing the customer experience. Our pharmacists continued to be strong patient advocates as they assisted the customer base in the understanding of Medicare Part D Drug Benefit Program. In addition, in-store health clinics were opened in selected stores and the flu shot immunization program was expanded. The objectives were to build loyalty and to reinforce the importance of community pharmacy in improving the health and welfare of our customer base.

Front-end Merchandising
The front-end part of the business saw continued emphasis on the important health and beauty merchandise categories. Additionally, digital photo processing capabilities were established in all stores and the general merchandise and the confectionary categories were expanded.

US Network Expansion
In fiscal 2007, we expanded the US network with the opening and relocation of 17 stores, we acquired 4 stores while we closed 15 stores. Our US network totalled 1,854 Brooks and Eckerd stores prior to the closing of the Rite Aid transaction on June 4, 2007.

RITE AID CORPORATION

The Jean Coutu Group – Rite Aid transaction
On August 23, 2006, the Company entered into a definitive agreement with Rite Aid whereby the Company would dispose of its network in the United States. On June 1, 2007, both companies announced that the Federal Trade Commission ("FTC") and several state regulatory agencies required Rite Aid to divest 26 stores in nine states and that the Hart-Scott-Rodino Act waiting period had expired, permitting the parties to close the transaction. On June 4, 2007, the Company completed the sale of its network in the United States comprising 1,854 corporate drugstores to Rite Aid in exchange for a cash consideration of $2.300 billion, subject to a working capital adjustment currently estimated at $14.4 million in favor of the Company, and 250 million shares of Rite Aid common stock, giving it approximately 32% common equity interest and 30% voting power in the expanded company. Rite Aid is one of the

United States' leading drugstore chains, with annual revenues of more than $27 billion and approximately 5,100 drugstores in 31 states and the District of Columbia with strong presence on both the East and West coasts.

Rite Aid believes that the acquisition of Brooks Eckerd Pharmacy, which was operated by the Company, provides several strategic benefits, including the following:

- a significant increase in the footprint and operating scale of its business, with increased presence in key strategic markets;
- the creation of the leading drugstore retailer in the Eastern United States, which Rite Aid believes will allow them to achieve the scale necessary to remain competitive with their major competitors;
- long-term value creation through net reductions in costs and expenses, achievement of meaningful synergies, including additional operational efficiencies, greater economies of scale and revenue enhancements resulting in higher operating cash flow and a decrease in their leverage ratio;
- better positioning to capture additional growth in a sector where growth is projected over the next five years; and
- an opportunity to apply their scaleable infrastructure, including their programs, best practices and management capabilities, across a larger store network, which they believe will improve profitability through cost savings and sales growth.

US Industry Trends

Rite Aid believes pharmacy sales in the United States will grow over the coming years. This anticipated growth is expected to be driven by greater drug utilization, an aging population caused by the "baby boom'' generation entering their sixties, the increasing life expectancy of the American population, the Medicare Part D drug benefit program, the introduction of new drugs and the rate of inflation.

Generic prescription drugs help lower overall costs for customers and third party payors. Rite Aid believes the utilization of existing generic pharmaceuticals is expected to continue to increase for several years and that a significant number of new generics are expected to be introduced in the next couple of years. The gross profit from a generic drug prescription in the retail drugstore industry is greater than the gross profit from a brand drug prescription.

The retail drugstore industry is highly competitive and has been experiencing consolidation. Rite Aid believes that the continued consolidation of the drugstore industry, continued new store openings, increased mail order, increased competition from Internet based providers, drug importation and mergers of retail drugstores and pharmaceutical services companies will further increase competitive pressures in the industry. The growth rate of prescription drug sales has also been impacted by slower introductions of successful new prescription drugs and safety concerns sometimes resulting in the recall of some drugs.

The retail drugstore industry relies significantly on third party payors. When these payors, including the Medicare Part D program and the state sponsored Medicaid agencies, reduce the number of participants or reduce their reimbursement rates, sales and margins in the industry could be reduced, and profitability of the industry could be adversely affected.

Rite Aid's Strategy

Rite Aid's strategy is to continue to focus on improving the productivity of their existing stores and developing new and relocated stores in their strongest existing markets as well as integrating the stores they acquired from the Company under the Rite Aid banner. They believe that improving the sales of existing stores and growing their existing markets is critical to improving their profitability and cash flow.

The following paragraphs summarize the components of the Rite Aid strategy:

Integrate Brooks and Eckerd Stores Under Rite Aid Banner and Develop Stores in Existing Markets

Rite Aid intends to convert all Brooks and Eckerd stores to the Rite Aid systems and banner within 16 months following the closing of the transaction. Rite Aid also expects to continue its new and relocated store and store remodeling program. As part of the new and relocated store and store remodeling program, some of the Brooks or Eckerd and Rite Aid stores that are in close proximity to one another may be combined to improve overall productivity.

Grow Pharmacy Sales and Attract More Customers

Rite Aid believes that customer service and convenience are key factors to growing pharmacy sales. Rite Aid has developed and implemented a new pharmacy management and dispensing system and expects to implement this system in the Brooks and Eckerd stores that it acquired in the transaction.

Rite Aid also has the capability to provide pharmacy benefit management ("PBM") services to employers, health plans and insurance companies. Rite Aid intends to offer, through their PBM capabilities, a 90 day at retail alternative to mail order. Rite Aid believes that providing PBM services will create opportunities to direct customers to their stores.

Grow Front-End Sales

Rite Aid intends to grow front-end sales through continued emphasis on core drugstore categories, a commitment to health and wellness products to enhance their pharmacy position, a focus on seasonal and cross-merchandising, offering a wider selection of products and services to their customers and effective promotions in their weekly advertising circulars. Rite Aid believes that the new store and relocation program described earlier will also contribute to an increase in their front-end sales.

The average front-end sales per store for the Rite Aid stores are more than the average front-end sales per store for the Brooks and Eckerd stores located in the same markets. Rite Aid will emphasize their private brand products, which provide better value for customers and higher margins for the company, as well as expand the number of GNC store-within-Rite-Aid-store. Rite Aid believes that the implementation of their “best practices” will increase the average Brooks and Eckerd front-end sales per store to a level similar to the average Rite Aid front-end sales per store.

Focus on Customers and Associates

Rite Aid’s “With Us, It’s Personal” commitment encourages associates to provide customers with a superior customer service experience. Rite Aid continues to develop and implement training programs and create compensatory and other incentives for associates to provide customers with excellent service. Rite Aid believes that these steps further enable and motivate their associates to deliver superior customer service.

Expense Control and Cost Savings through Synergies

Throughout the recently expanded Rite Aid store network, the goal is to either reduce costs, lower expenses or contain expenses in order to leverage the pharmacy and front end sales growth strategies. These actions will allow for more investment in the strategies important for their future.

Rite Aid estimates that net reductions in costs and expenses will be realized in the area of merchandise purchasing, advertising, distribution and administration. Rite Aid also expects other benefits and synergies to result from additional operational efficiencies, greater economies of scale and revenue enhancement opportunities. Rite Aid can provide no assurance that the anticipated benefits and synergies from the transaction will be realized.

In addition to information contained in Rite Aid’s public disclosure documents, readers are also referred to their website at www.riteaid.com.

Management's Discussion and Analysis

The discussion that follows provides an analysis of the consolidated operating results and financial position (Management's Discussion and Analysis - "MD&A") of The Jean Coutu Group (PJC) Inc. ("the Company" or the "Jean Coutu Group") for the fourth quarter and fiscal year ended and as at June 4, 2007.

The Jean Coutu Group operates a network of 328 franchised drugstores in Canada located in the provinces of Québec, New Brunswick and Ontario (under the banners of PJC Jean Coutu, PJC Clinique and PJC Santé Beauté). The Company holds a significant interest in Rite Aid Corporation (''Rite Aid''), one of the United States' leading drugstore chains, with annual revenues of more than $27 billion and approximately 5,100 drugstores in 31 states and the District of Columbia with strong presence on both the East and West coasts.

Management has presented certain non-Generally Accepted Accounting Principles ("GAAP") measures in this MD&A. Although operating income before amortization ("OIBA"), OIBA before restructuring charges and earnings (or earnings per share) before specific items are not performance measures defined by Canadian GAAP, management, investors and analysts use these measures to evaluate the operating and financial performance of the Company. Moreover, the Company's definition of these measures may differ from the ones used by other companies. These measures are reconciled with net earnings, a performance measure defined by Canadian GAAP, in this MD&A.

PRESENTATION OF FINANCIAL STATEMENTS

All financial information appears in US dollars in accordance with Canadian GAAP. The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes as at June 4, 2007 as well as the Company's recent public filings.

The Company's reporting calendar is based on the US National Retail Federation 4-5-4 merchandising calendar. Accordingly, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The fiscal year ended June 4, 2007 exceptionally contains 53 weeks and 2 days to reflect the sale of US operations described herein, while the fiscal year ended May 27, 2006 contained 52 weeks. For the fiscal year commencing on June 5, 2007, the Company changed its fiscal year-end date to become the Saturday closest to February 29 or March 1 in order to coincide with Rite Aid's fiscal year end.

Readers may access additional information and filings relating to the Company using the following link to the www.sedar.com website.

FORWARD-LOOKING STATEMENTS

This MD&A contains *"forward-looking statements"*, that involve risks and uncertainties, and which are based on the Company's current expectations, estimates, projections and assumptions and were made by The Jean Coutu Group in light of its experience and its perception of historical trends. All statements that address expectations or projections about the future, including statements about the Company's strategy for growth, costs, operating or financial results, are forward-looking statements. All statements other than statements of historical facts included in this MD&A, including, statements regarding the prospects of the Company's industry and the Company's prospects, plans, financial position and business strategy, may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Some of the forward-looking statements may be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "project", "could", "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although The Jean Coutu Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. These statements do not reflect the potential impact of any non-recurring items or of any mergers, acquisitions, dispositions, asset write-downs or other transactions or charges that may be announced or that may occur after the date hereof. While the below list of cautionary statements is not exhaustive, some important factors that could affect our future operating results, financial position and cash flows and could cause our actual results to differ materially from those expressed in these forward-looking statements are the general economic, financial or market conditions, the cyclical and seasonal variations in the industry in which we operate, the changes in the regulatory environment as it relates to the sale of prescription drug, the ability to attract and retain pharmacists, the intensity of competitive activity in the industry in which we operate, certain property and casualty risks, risks in connection with third party service providers, technological changes that affect demand for our products and services, labour disruptions, including possibly strikes and labour protests, changes in laws and regulations, or in their interpretations, changes in tax regulations and accounting pronouncements, the success of the Company's business model, the supplier and brand reputations and the accuracy of management's assumptions and other factors that are beyond our control.

These and other factors could cause our actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. Investors and others are cautioned that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to the Company's public filings available at www.sedar.com and www.jeancoutu.com. In particular, further details and descriptions of these and other factors are disclosed in the Company's Annual Information Form under "Risk Factors" and in the "Risks and uncertainties" section of this MD&A. We expressly disclaim any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

DEFINITION OF FINANCIAL DATA

Revenues
Revenues consist of Canadian and US sales, plus other revenues derived from franchising and retail sales.

Canada: Merchandise sales by our distribution centers to PJC franchisees account for most of our sales in Canada. PJC retail store sales are not included in our revenues. However, changes in their retail sales directly affect our revenues since PJC franchisees purchase most of their inventory from our distribution centers. Other revenues consist of royalties from our franchisees based on a percentage of retail sales, rental revenues and charge-backs to our franchisees in exchange for certain services.

United States: US sales consist of retail sales generated by the corporate stores operating under the Eckerd and Brooks banners. Other revenues include rental revenues from our properties leased to third parties.

Gross profit
Gross profit is calculated as follows: sales minus the cost of goods sold from our distribution centers, for our Canadian operations, and the cost of goods sold (which includes distribution costs and estimated inventory losses) in our stores, for the US network.

General and operating expenses
General and operating expenses comprise costs associated with salaries and benefits, rent, advertising, repairs and maintenance, insurance and professional fees.

Operating income before amortization (''OIBA'') and OIBA before restructuring charges
OIBA and OIBA before restructuring charges are not measures of performance under Canadian GAAP; however, management uses those performance measures in assessing the operating and financial performance of its reportable segments. Besides, we believe that OIBA and OIBA before restructuring charges are additional measures used by investors to evaluate operating performance and capacity of a company to meet its financial obligations. However, OIBA and OIBA before restructuring charges are not and must not be used as alternatives to net earnings or cash flow generated by operating activities as defined by Canadian GAAP. OIBA and OIBA before restructuring charges are not necessarily indications that cash flow will be sufficient to meet our financial obligations. Furthermore, our definition of OIBA and OIBA before restructuring charges may not be necessarily comparative to similar measures reported by other companies.

Earnings (or earnings per share) before specific items
Earnings before specific items and earnings per share before specific items are non-GAAP measures. The Company believes that it is useful for investors to be aware of significant items of an unusual or non-recurring nature that have adversely or positively affected its GAAP measures, and that the above mentioned non-GAAP measures provide investors with a measure of performance with which to compare its results between periods without regard to these items. The Company's measures excluding certain items have no standardized meaning prescribed by GAAP and are not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation.

FINANCIAL DATA

The following table presents selected data and operating results for the fiscal year ended June 4, 2007 and the fiscal year ended May 27, 2006.

			2007			2006
(in millions of US dollars, except per share amounts)	**Canada $**	**United States $**	**Consolidated $**	Canada $	United States $	Consolidated $
Sales	**1,697.2**	**9,772.5**	**11,469.7**	1,458.2	9,495.9	10,954.1
Cost of goods sold	**1,547.7**	**7,289.5**	**8,837.2**	1,324.0	7,077.2	8,401.2
Gross profit	**149.5**	**2,483.0**	**2,632.5**	134.2	2,418.7	2,552.9
As a % of sales	**8.8%**	**25.4%**	**23.0%**	9.2%	25.5%	23.3%
Other revenues [1]	**196.5**	**13.3**	**209.8**	181.0	11.8	192.8
General and operating expenses	**155.0**	**2,154.3**	**2,309.3**	150.2	2,098.9	2,249.1
Restructuring charges	**-**	**54.3**	**54.3**	-	-	-
Operating income before amortization	**191.0**	**287.7**	**478.7**	165.0	331.6	496.6
Amortization [1]	**16.8**	**54.2**	**71.0**	15.9	215.8	231.7
Operating income	**174.2**	**233.5**	**407.7**	149.1	115.8	264.9
Financing expenses			**215.6**			205.1
Gain on sale of the retail sales segment			**(139.3)**			-
Loss on early debt retirement			**168.3**			-
Earnings before income taxes			**163.1**			59.8
Income taxes (recovery)			**22.3**			(44.0)
Net earnings			**140.8**			103.8
Per share			**0.54**			0.40
Earnings before specific items			**107.8**			114.7
Per share			**0.41**			0.44

[1] Amortization of incentives paid to franchisees is grouped with amortization instead of other revenues as in the Consolidated Financial Statements.

(in millions of US dollars, except for sales growth and per share amounts)	**2007** **$**	2006 $
Network performance - Retail sales		
Canada [1]	**2,771.7**	2,441.8
United States	**9,772.5**	9,495.9
	12,544.2	11,937.7
Retail sales growth – same-store [2]		
Canada [1]		
Total	**6.8%**	4.3%
Pharmacy	**8.4%**	7.0%
Front-end	**4.7%**	0.6%
United States		
Total	**1.3%**	1.2%
Pharmacy	**1.5%**	2.0%
Front-end	**0.5%**	(1.1)%
Reconciliation of OIBA and OIBA before restructuring charges with net earnings		
Net earnings	**140.8**	103.8
Financing expenses	**215.6**	205.1
Gain on sale of the retail sales segment	**(139.3)**	-
Loss on early debt retirement	**168.3**	-
Income taxes (recovery)	**22.3**	(44.0)
Operating income	**407.7**	264.9
Amortization per financial statements	**67.1**	227.9
Amortization of incentives paid to franchisees [3]	**3.9**	3.8
Operating income before amortization (''OIBA'')	**478.7**	496.6
Restructuring charges	**54.3**	-
OIBA before restructuring charges	**533.0**	496.6

[1] Franchised outlets retail sales are not included in the Company's Consolidated Financial Statements.
[2] Growth is calculated in local currency and is based on comparable periods.
[3] Amortization of incentives paid to franchisees is grouped with other revenues in the Consolidated Financial Statements.

(in millions of US dollars, except for per share amounts)	**2007** **$**	2006 $
Reconciliation of earnings and earnings per share before specific items		
(all amounts are net of income taxes when applicable)		
Net earnings	**140.8**	103.8
Restructuring charges	**31.6**	-
Reversal of amortization of the retail sales segment in consolidation	**(105.3)**	-
Unrealized foreign exchange losses (gains) on monetary items	**(0.2)**	10.9
Gain on sale of the retail sales segment	**(76.6)**	-
Loss on early debt retirement	**117.5**	-
Earnings before specific items	**107.8**	114.7
Earnings per share	**0.54**	0.40
Restructuring charges	**0.12**	-
Reversal of amortization of the retail sales segment in consolidation	**(0.41)**	-
Unrealized foreign exchange losses (gains) on monetary items	**-**	0.04
Gain on sale of the retail sales segment	**(0.29)**	-
Loss on early debt retirement	**0.45**	-
Earnings per share before specific items	**0.41**	0.44

EXCHANGE RATE DATA

The Company's US dollar reporting currency provides shareholders with more relevant information, considering its predominant operations in the United States and US-dollar-denominated debt. The following table shows exchange rates based on the Federal Reserve Bank of New York closing rate expressed as US dollars per Canadian dollar.

	June 4, 2007	May 27, 2006	May 28, 2005
Average rate [1]	**0.8808**	0.8513	0.7937
Closing rate	**0.9453**	0.9032	0.7946

[1] Calculated using the average noon buying rates for each day of the relevant period.

SELECTED ANNUAL FINANCIAL INFORMATION

(in millions of US dollars except per share amounts)	**Fiscal year ended June 4, 2007 $**	Fiscal year ended May 27, 2006 $	Fiscal year ended May 28, 2005 $
Revenues	**11,675.6**	11,143.1	9,617.4
OIBA	**478.7**	496.6	452.7
OIBA before restructuring charges	**533.0**	496.6	452.7
Net earnings	**140.8**	103.8	104.4
Per share	**0.54**	0.40	0.41
Earnings before specific items	**107.8**	114.7	112.2
Per share	**0.41**	0.44	0.44
Cash dividend per share ($C)	**0.12**	0.12	0.12
Total assets	**2,208.2**	5,591.0	5,694.9
Total long-term liabilities	**34.7**	2,719.1	2,976.6

COMPARISON OF THE FISCAL YEARS ENDED JUNE 4, 2007 AND MAY 27, 2006

Net earnings
For the fiscal year ended June 4, 2007, net earnings were $140.8 million ($0.54 per share) compared with net earnings of $103.8 million ($0.40 per share) for the fiscal year ended May 27, 2006.

Canadian network sales and operating performance improved over fiscal 2006 while US sales performance was acceptable despite challenges prior to the closing of the Rite Aid transaction.

On August 23, 2006, the Company entered into a definitive agreement with Rite Aid whereby the Company would dispose of its network in the United States. On June 1, 2007, both companies announced that the Federal Trade Commission ("FTC") and several state regulatory agencies required Rite Aid to divest 26 stores in nine states and that the Hart-Scott-Rodino Act waiting period had expired, permitting the parties to close the transaction. On June 4, 2007, the Company completed the sale of its network in the United States comprising 1,854 corporate drugstores to Rite Aid in exchange for a cash consideration of $2.300 billion, subject to a working capital adjustment currently estimated at $14.4 million in favor of the Company, and 250 million shares of Rite Aid common stock, giving it approximately 32% common equity interest and 30% voting power in the expanded company. The gain on sale of the retail sales segment amounted to $139.3 million ($76.6 million after-tax). The loss on early debt retirement when the term loans and notes were repaid, using the cash consideration arising from the Rite Aid transaction, amounted to $168.3 million ($117.5 million after-tax). Readers are referred to Notes 4 and 14 of the Consolidated Financial Statements for more information.

Since August 23, 2006, the Company ceased amortizing the assets related to its US operations since they were classified as assets held for sale. Accordingly, amortization charges amounting to $181.0 million were reversed in consolidation during fiscal 2007.

Earnings before specific items were $107.8 million ($0.41 per share) compared to $114.7 million ($0.44 per share) for the previous fiscal year.

Revenues
Total revenues, which include sales and other income, rose $532.5 million or 4.8% to $11.676 billion for the fiscal year ended June 4, 2007 compared with $11.143 billion for the fiscal year ended May 27, 2006.

Canada: Revenues from Canadian operations showed double digit growth during fiscal 2007, reaching $1.890 billion for the fiscal year ended June 4, 2007, an increase of $254.4 million or 15.6% over revenues for the fiscal year ended May 27, 2006. Canadian revenues increased by 11.9%, excluding the impact of currency exchange rate fluctuations, in part due to a 53-week and 2 day period this fiscal year compared with a 52-week period in fiscal 2006. Fiscal 2007 Canadian revenues in Canadian dollars increased by 9.8% on a comparable period basis. During fiscal 2007, there were 9 store openings, including 5 relocations in the PJC franchised store network compared with 12 openings, 6 relocations and 5 acquisitions during fiscal 2006. In addition, 10 stores were significantly renovated and 8 were expanded during fiscal 2007 compared with 4 and 4 respectively during fiscal 2006. There were also 3 store closures during fiscal 2007 compared with 5 closures during fiscal 2006. At June 4, 2007, the PJC network had 328 stores. Sales increases reflected growth resulting from recent network development activity and previous period openings and renovations. For the fiscal year ended June 4, 2007 compared with the fiscal year ended May 27, 2006, on an equivalent period, same-store basis and in local currency, total PJC retail sales grew 6.8%, pharmacy sales gained 8.4% and front-end sales picked up 4.7% year-over-year.

United States: Revenues from US operations increased to $9.786 billion for the fiscal year ended June 4, 2007, up $278.1 million or 2.9% from last fiscal year. During fiscal 2007 on an equivalent period and same-store basis, total retail sales increased 1.3%, pharmacy sales gained 1.5% and front-end sales increased 0.5% year-over-year. During fiscal 2007, there were 17 new store openings including 10 relocations, acquisition of 4 stores and 15 store closures, bringing our US network to 1,854 Brooks and Eckerd stores prior to the closing of the Rite Aid transaction on June 4, 2007. During fiscal 2006, there were 38 new store openings including 19 relocations, 2 store acquisitions and 85 store closures and our US network had 1,858 Brooks and Eckerd drugstores as at May 27, 2006.

Brooks Eckerd same-store sales continued to improve in the pharmacy section even though they were impacted by the conversion of brand name drugs to generics, which have a lower selling price, but higher gross margins to the drugstore retailer. The effect of generic drugs replacing brand drugs on pharmacy sales growth was 4.4% during fiscal 2007 compared with 2.3% in fiscal 2006. Generic prescriptions accounted for 61.9% of all prescriptions sold in May 2007, compared to 57.1% in May 2006. The generic substitution rate, that is the rate at which Brooks Eckerd substitutes generics for branded drugs while filling prescriptions, increased from 94.0% in fiscal 2006 to 95.3% in fiscal 2007, and reached 95.6% in May 2007, with a positive effect on our pharmacy margins. Prescriptions from Medicare Part D as a percentage of overall pharmacy business reached 16.0% of all prescriptions sold in May 2007. Third party health plans covered 96.1% of pharmacy sales in fiscal 2007 compared with 95.6% in fiscal 2006. Front-end sales growth was negatively impacted by the continued decline in the photo category which was partially offset by a 52% increase in the digital print business. The effect of the decline in sales in the photo category on front-end sales growth was 1.2% during fiscal 2007. Sales growth was also negatively impacted by the declining availability of certain private label and other products toward the end of fiscal 2007 and pending the closing of the Rite Aid transaction. Sales in the general merchandise, consumables and beauty categories showed the strongest performance of all front-end categories.

Gross profit

Canada: Gross profit from Canadian operations was $149.5 million for the fiscal year ended June 4, 2007 compared to $134.2 million for the fiscal year ended May 27, 2006. Gross margin was 8.8% for the fiscal year ended June 4, 2007 compared with 9.2% for the fiscal year ended May 27, 2006.

United States: Gross profit from US operations amounted to $2.483 billion for the fiscal year ended June 4, 2007 compared with $2.419 billion for the fiscal year ended May 27, 2006. The gross margin percentage of the US operations was 25.4% for the fiscal year ended June 4, 2007 compared with 25.5% for the fiscal year ended May 27, 2006.

Other revenues

Other revenues, which are included in total revenues in the Company's Consolidated Financial Statements, increased to $205.9 million in fiscal 2007 from $189.0 million in fiscal 2006. The increase is due principally to the impact of additional retail sales on royalties, combined with the additional days in fiscal 2007 and currency exchange rate fluctuations on revenues earned in Canadian operations.

General and operating expenses

General and operating expenses for the fiscal year ended June 4, 2007 were $2.309 billion, up from $2.249 billion for the fiscal year ended May 27, 2006, an increase of $60.2 million or 2.7%. It represented 19.8% of revenues compared with 20.2% a year earlier.

Canada: General and operating expenses performance for the fiscal year represented 8.2% of revenues versus 9.2% last fiscal year. The improvement reflects better absorption of fixed overheads due to increased revenues.

United States: General and operating expenses represented 22.0% of revenues in the United States versus 22.1% a year earlier. This item increased from $2.099 billion in fiscal 2006 to $2.154 billion in fiscal 2007, an increase of $55.4 million or 2.6%.

Restructuring charges
The Company adopted a transition pay program associated with the disposal of the retail sales segment. The charges related to this program amount to $54.3 million ($31.6 million after-tax) in fiscal 2007.

OIBA
Fiscal 2007 OIBA was impacted by certain restructuring charges principally related to the transition pay program associated with the transaction. OIBA before restructuring charges increased to $533.0 million in the fiscal year ended June 4, 2007 from $496.6 million in the fiscal year ended May 27, 2006, in part due to the additional days in fiscal 2007. OIBA before restructuring charges as a percentage of revenues increased to 4.6% in fiscal 2007 from 4.5% in fiscal 2006.

OIBA for the Company's Canadian operations increased to $191.0 million in fiscal 2007 compared with $165.0 million in fiscal 2006, an increase of 15.8% or 12.0% in local currency, due to strong top line growth. OIBA before restructuring charges for US operations increased to $342.0 million in fiscal 2007 from $331.6 million in fiscal 2006.

Amortization
Amortization charges decreased to $67.1 million during fiscal 2007, down $160.8 million from $227.9 million for fiscal 2006. Since August 23, 2006, the Company ceased amortizing the assets related to its US operations since they were classified as assets held for sale. Amortization charges amounting to $181.0 million were reversed in consolidation during fiscal 2007.

Financing expenses
Financing expenses were $215.6 million in fiscal 2007, an increase of $10.5 million over $205.1 million in fiscal 2006, due principally to an increase in the average interest rate and additional days in fiscal 2007. The weighted average interest rate on the Company's long-term debt was 8.0% during the current fiscal year compared with 7.4% for fiscal 2006.

Income taxes
There was an income tax expense of $22.3 million in fiscal 2007 compared with a recovery of $44.0 million in fiscal 2006. The low effective tax rate is mainly a result of the financing structure established as part of the Eckerd acquisition. The income tax expense for the current fiscal year includes an amount of $62.7 million in relation with the gain on sale of the retail sales segment. Such expense includes a charge in the amount of $58.7 million related to the unwinding of the financing structure which does not reflect amendments in draft legislation. In the event these measures become substantively enacted, it is expected that the charge of $58.7 million ($0.22 per share) will be reversed. Readers are referred to Note 7 of the Consolidated Financial Statements for more information.

Comparison of the fiscal years ended May 27, 2006 and May 28, 2005

Net earnings
For the fiscal year ended May 27, 2006, net earnings were $103.8 million ($0.40 per share) compared with net earnings of $104.4 million ($0.41 per share) for the fiscal year ended May 28, 2005. Earnings before specific items, which consisted of unrealized foreign exchange losses, were $114.7 million ($0.44 per share) compared to $112.2 million ($0.44 per share) for the previous fiscal year.

Revenues
Total revenues, which include sales and other income, increased by $1.526 billion or 15.9% to $11.143 billion for the fiscal year ended May 27, 2006 compared with $9.617 billion for the fiscal year ended May 28, 2005.

Canada: Revenues from Canadian operations showed double digit growth during fiscal 2006, reaching $1.635 billion, an increase of $229.2 million or 16.3% from revenues of $1.406 billion for fiscal 2005. Canadian revenues increased by 8.5% excluding the impact of currency exchange rate fluctuations. During fiscal 2006, there were 12 openings, including 6 relocations as well as 5 acquisitions of stores in the PJC franchised store network compared with 7 openings and 5 relocations during fiscal 2005. In addition, 4 stores were significantly renovated and 4 were expanded during fiscal 2006 compared with 7 and 6 respectively during fiscal 2005. There were also 5 store closures during fiscal 2006. Sales increases reflect growth resulting from previous period openings, renovations or relocations of network stores and growth in PJC same-store retail sales. For the fiscal year ended May 27, 2006 compared with the fiscal year ended May 28, 2005, on a same-store basis and in local currency, total PJC retail sales grew 4.3%, pharmacy sales gained 7.0% and front-end sales picked up 0.6% year-over-year.

United States: Revenues from US operations increased to $9.508 billion for the fiscal year ended May 27, 2006, up $1.297 billion or 15.8% from revenues of $8.211 billion for fiscal 2005. The increase is principally due to additional revenues of $1.297 billion from the acquired Eckerd drugstores during the full 52 weeks of fiscal 2006 compared with 43 weeks in fiscal 2005, net of the loss of sales from the 78 Eckerd drugstores closed during the first quarter of fiscal 2006. Total revenue from these closed stores was $156.8 million in fiscal 2005. Brooks Eckerd sales trends have improved in both the pharmacy and front-end. On a same-store basis, total retail sales grew 1.2%, pharmacy sales gained 2.0% and front-end sales decreased 1.1% year-over-year. This measure included same-store sales for the acquired Eckerd drugstores as of August 1, 2005, the first anniversary of ownership by the Company. During fiscal 2006, there were 38 new store openings including 19 relocations, acquisition of 2 stores and 85 store closures, bringing our US network to 1,858 Brooks and Eckerd stores as at May 27, 2006. During fiscal 2005, in addition to the acquisition of 1,551 drugstores, there were 117 new store openings including 54 relocations and 28 store closures and the US network had 1,922 Brooks and Eckerd drugstores as at May 28, 2005.

Pharmacy sales were negatively impacted by the conversion of branded drugs to generics, which generally have a lower selling price, but higher gross profits for the drugstore retailer. Over fiscal 2005 and 2006, pharmacy sales were negatively impacted by the conversion of several popular branded drugs from prescription to generic and over-the-counter status. Generics as a percentage of total Brooks Eckerd pharmacy script count increased from 53.8% in May 2005 to 57.1% in May 2006. The generic substitution rate, that is the rate at which Brooks Eckerd substitutes generics for branded drugs while filling prescriptions, increased from 93.8% in May 2005 to 95.6% in May 2006, with a positive effect on our pharmacy margins. The impact of generic drugs replacing branded drugs on pharmacy sales growth was 2.3% during fiscal 2006. Third party health plans covered 95.6% of pharmacy sales in fiscal 2006. Front-end trends have improved, with growth in consumables, core health and beauty categories and private label products, with a slight decline in overall front-end sales year-over-year, principally due to the significant decline in the photo category.

Gross profit

Canada: Total Canadian gross profit improved to $134.2 million for the fiscal year ended May 27, 2006 compared with $118.0 million for the previous fiscal year. Gross margin decreased slightly to 9.2% in fiscal 2006 compared with 9.5% during the previous fiscal year.

United States: United States gross profit amounted to $2.419 billion for the fiscal year ended May 27, 2006 compared with $2.041 billion for the previous corresponding fiscal year. The increase is attributable to the addition of the Eckerd business for the full 2006 fiscal year. The gross margin percentage of our US operations improved to 25.5% during fiscal 2006 compared with 24.9% in fiscal 2005. The improvement stems from the increased use of generics with a positive effect on pharmacy margins year-over-year and from reduced inventory losses as a result of loss prevention programs implemented across the US network.

Other revenues

Other revenues, which are included in total revenues in the Company's Consolidated Financial Statements, increased to $189.0 million in fiscal 2006 from $169.0 million the previous year due principally to currency exchange rate fluctuations.

General and operating expenses
General and operating expenses for the fiscal year ended May 27, 2006 were $2.249 billion, up from $1.878 billion in the previous fiscal year. The increase is mainly attributable to the addition of the Eckerd business for the full 2006 fiscal year.
Canada: General and operating expenses performance for the fiscal year represented 9.2% of revenues versus 9.4% for fiscal 2005.

United States: General and operating expenses represented 22.1% of revenues in the United States versus 21.3% a year earlier. Normal inflationary increases in general and operating expenses were not covered by sales increases. In addition, wages increased, due to the Medicare Part D Drug Benefit program rollout and sales growth initiatives. The Company also incurred certain non-recurring integration expenses during both the 2006 and 2005 fiscal years.

OIBA
OIBA for the fiscal year ended May 27, 2006 improved to $496.6 million compared with $452.7 million for fiscal 2005. OIBA as a percentage of revenues decreased to 4.5% for fiscal 2006 compared with 4.7% for the previous fiscal year. The increase in OIBA for the current fiscal year reflects the operation of the acquired Eckerd drugstores for the full year compared with 43 weeks for fiscal 2005, as well as the improving performance of existing Canadian operations.

Amortization
Amortization charges increased to $227.9 million during fiscal 2006, up $32.6 million from $195.3 million for fiscal 2005. The increase in the charges for fiscal 2006 reflects the operation of the acquired Eckerd drugstores for the full 2006 fiscal year.

Financing expenses
Financing expenses were $205.1 million in fiscal 2006, an increase of $43.0 million over $162.1 million in fiscal 2005, due principally to the financing expenses related to the Eckerd acquisition for the full 2006 fiscal year compared with 43 weeks in fiscal 2005 and to a year-over-year increase in interest costs on the $1.2 billion of debt which bears interest at floating rates (2005 - $1.3 billion). The weighted average interest rate on the Company's long-term debt was 7.4% during the current fiscal year compared with 6.3% for fiscal 2005.

Income taxes
There was an income tax recovery of $44.0 million in fiscal 2006 compared with a recovery of $12.6 million in fiscal 2005. The low effective tax rate of the current fiscal year is a result of the financing structure established as part of the Eckerd acquisition.

SELECTED UNAUDITED QUARTERLY FINANCIAL INFORMATION

QUARTERLY RESULTS OF OPERATIONS

(in millions of US dollars, except per share amounts)	**Fiscal year ended June 4, 2007 $**	**Q4 2007 $**	**Q3 2007 $**	**Q2 2007 $**	**Q1 2007 $**	Fiscal year ended May 27, 2006 $	Q4 2006 $	Q3 2006 $	Q2 2006 $	Q1 2006 $
Sales	**11,469.7**	**2,829.1**	**3,119.5**	**2,783.3**	**2,737.8**	10,954.1	2,826.3	2,826.7	2,663.3	2,637.8
Cost of goods sold	**8,837.2**	**2,173.0**	**2,400.4**	**2,143.5**	**2,120.3**	8,401.2	2,171.9	2,170.3	2,037.8	2,021.2
Gross profit	**2,632.5**	**656.1**	**719.1**	**639.8**	**617.5**	2,552.9	654.4	656.4	625.5	616.6
As a % of sales	**23.0%**	**23.2%**	**23.1%**	**23.0%**	**22.6%**	23.3%	23.2%	23.2%	23.5%	23.4%
Other revenues [1]	**209.8**	**53.7**	**55.7**	**51.1**	**49.3**	192.8	49.8	49.9	46.9	46.2
General and operating expenses	**2,309.3**	**579.6**	**613.8**	**559.9**	**556.0**	2,249.1	574.3	569.1	547.3	558.4
Restructuring charges	**54.3**	**25.8**	**8.2**	**9.7**	**10.6**	-	-	-	-	-
Operating income before amortization	**478.7**	**104.4**	**152.8**	**121.3**	**100.2**	496.6	129.9	137.2	125.1	104.4
Amortization [1]	**71.0**	**4.4**	**4.3**	**4.1**	**58.2**	231.7	45.6	62.3	62.2	61.6
Operating income	**407.7**	**100.0**	**148.5**	**117.2**	**42.0**	264.9	84.3	74.9	62.9	42.8
Financing expenses	**215.6**	**67.7**	**52.1**	**44.9**	**50.9**	205.1	52.9	52.8	48.7	50.7
Impairment loss (reversal) on assets held for sale	**-**	**-**	**(108.0)**	**(12.0)**	**120.0**	-	-	-	-	-
Gain on sale of the retail sales segment	**(139.3)**	**(139.3)**	**-**	**-**	**-**	-	-	-	-	-
Loss on early debt retirement	**168.3**	**168.3**	**-**	**-**	**-**	-	-	-	-	-
Earnings (loss) before income taxes	**163.1**	**3.3**	**204.4**	**84.3**	**(128.9)**	59.8	31.4	22.1	14.2	(7.9)
Income taxes (recovery)	**22.3**	**10.2**	**20.4**	**11.8**	**(20.1)**	(44.0)	1.1	(9.5)	(16.6)	(19.0)
Net earnings (loss)	**140.8**	**(6.9)**	**184.0**	**72.5**	**(108.8)**	103.8	30.3	31.6	30.8	11.1
Per share	**0.54**	**(0.03)**	**0.70**	**0.28**	**(0.42)**	0.40	0.12	0.12	0.12	0.04
Earnings before specific items	**107.8**	**19.4**	**39.8**	**30.8**	**17.8**	114.7	41.5	31.9	29.0	12.3
Per share	**0.41**	**0.07**	**0.15**	**0.12**	**0.07**	0.44	0.16	0.12	0.11	0.05

[1] Amortization of incentives paid to franchisees is grouped with amortization instead of other revenues as in the Consolidated Financial Statements.

- The Company's reporting calendar is based on the US National Retail Federation 4-5-4 merchandising calendar. Accordingly, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The fiscal year ended June 4, 2007 exceptionally contains 53 weeks and 2 days, to reflect the sale of US operations described in Note 4 to the Consolidated Financial Statements, while the fiscal year ended May 27, 2006 contained 52 weeks. The third quarter of the current fiscal year contained 14 weeks compared with 13 weeks for the third quarter of fiscal 2006 and the fourth quarter ended June 4, 2007 contains 13 weeks and 2 days compared with 13 weeks for the fourth quarter ended May 27, 2006.

- Since August 23, 2006, the Company ceased amortizing the assets related to its US operations since they were classified as assets held for sale. Amortization charges amounting to $181.0 million were reversed in consolidation during fiscal 2007. The Company adopted a transition pay program associated with the disposal of the retail sales segment. The charges related to this program amount to $54.3 million during fiscal 2007.

- On August 23, 2006, the Company entered into a definitive agreement with Rite Aid whereby the Company would dispose of its network in the United States. As provided under GAAP, the Company performed an impairment test and recognized a loss on assets held for sale following the announcement of the transaction. However, since the announcement date, the factors affecting the impairment test fluctuated favorably. As at the end of the third quarter of fiscal 2007, the fair value of the investment in US operations had increased significantly and resulted in a potential gain. Under GAAP, such gain could not be recognized before the closing of the transaction and consequently, during the third quarter, the Company reversed the previously recognized impairment loss and deferred the recognition of the potential gain on sale until closing. The final gain or loss was subject to various factors until the transaction closed, such as the variation in the market price of Rite Aid shares and in the Canadian and US dollar exchange rate.

- As at the closing of the transaction on June 4, 2007, the fair value of the investment in the US Operations, net of estimated transaction costs, resulted in a gain on sale of $139.3 million ($76.6 million after-tax). Also, the loss on early debt retirement when the term loans and notes were repaid amounted to $168.3 million ($117.5 million after-tax). Readers are referred to Notes 4 and 14 of the Consolidated Financial Statements for more information.

The weather has an effect on the general population's health and, by extension, on the Company's retail sales and those of our franchised outlets. For example, in winter, the Company sells more cold and flu medicine, while in summer, allergy and sun protection products are in greater demand. Corporate and franchised outlet sales are affected by holidays such as Christmas, Easter, Thanksgiving, Valentine's Day, Mother's Day and Father's Day. The peak sales period is generally the Company's third quarter of its fiscal year, which includes the Christmas holiday period.

FINANCIAL DATA – FOURTH QUARTER

The following table presents reconciliation of earnings for the fourth quarters ended June 4, 2007 and May 27, 2006.

(in millions of US dollars, except per share amounts)	**Q4-2007 $**	Q4-2006 $
Reconciliation of OIBA and OIBA before restructuring charges with net earnings		
Net earnings (loss)	**(6.9)**	30.3
Financing expenses	**67.7**	52.9
Gain on sale of the retail sales segment	**(139.3)**	-
Loss on early debt retirement	**168.3**	-
Income taxes	**10.2**	1.1
Operating income	**100.0**	84.3
Amortization per financial statements	**3.4**	44.7
Amortization of incentives paid to franchisees (1)	**1.0**	0.9
Operating income before amortization (''OIBA'')	**104.4**	129.9
Restructuring charges	**25.8**	-
OIBA before restructuring charges	**130.2**	129.9
Reconciliation of earnings and earnings per share before specific items		
(all amounts are net of income taxes when applicable)		
Net earnings (loss)	**(6.9)**	30.3
Restructuring charges	**14.5**	-
Reversal of amortization of the retail sales segment in consolidation	**(40.6)**	-
Unrealized foreign exchange losses on monetary items	**8.8**	11.2
Unrealized losses on derivative financial instruments	**2.7**	-
Gain on sale of the retail sales segment	**(76.6)**	-
Loss on early debt retirement	**117.5**	-
Earnings before specific items	**19.4**	41.5
Earnings (loss) per share	**(0.03)**	**0.12**
Restructuring charges	**0.06**	**-**
Reversal of amortization of the retail sales segment in consolidation	**(0.16)**	**-**
Unrealized foreign exchange losses on monetary items	**0.03**	**0.04**
Unrealized losses on derivative financial instruments	**0.01**	**-**
Gain on sale of the retail sales segment	**(0.29)**	**-**
Loss on early debt retirement	**0.45**	**-**
Earnings per share before specific items	**0.07**	**0.16**

(1) Amortization of incentives paid to franchisees is grouped with other revenues in the Consolidated Financial Statements.

COMPARISON OF THE FOURTH QUARTERS ENDED JUNE 4, 2007 AND MAY 27, 2006

Net earnings
For the fourth quarter of fiscal 2007, the Company reported a net loss of $6.9 million ($0.03 per share) compared with net earnings of $30.3 million ($0.12 per share) for the fourth quarter of the previous fiscal year.

Canadian network sales and operating performance improved over the fourth quarter of fiscal 2006 while US sales performance was acceptable despite challenges prior to the closing of the Rite Aid transaction.

On August 23, 2006, the Company entered into a definitive agreement with Rite Aid whereby the Company would dispose of its network in the United States. On June 1, 2007, both companies announced that the FTC and several state regulatory agencies required Rite Aid to divest 26 stores in nine states and that the Hart-Scott-Rodino Act waiting period had expired, permitting the parties to close the transaction. On June 4, 2007, the Company completed the sale of its network in the United States comprising 1,854 corporate drugstores to Rite Aid in exchange for a cash consideration of $2.300 billion, subject to a working capital adjustment currently estimated at $14.4 million in favor of the Company, and 250 million shares of Rite Aid common stock, giving it approximately 32% common equity interest and 30% voting power in the expanded company. The gain on sale of the retail sales segment amounted to $139.3 million ($76.6 million after-tax). The loss on early debt retirement when the term loans and notes were repaid, using the cash consideration arising from the Rite Aid transaction, amounted to $168.3 million ($117.5 million after-tax). Readers are referred to Notes 4 and 14 of the Consolidated Financial Statements for more information.

Since August 23, 2006, the Company ceased amortizing the assets related to its US operations since they were classified as assets held for sale. Accordingly, Amortization charges amounting to $73.6 million were reversed in consolidation during the fourth quarter of fiscal 2007.

Earnings before specific items were $19.4 million ($0.07 per share) compared with $41.5 million ($0.16 per share) for the fourth quarter of the previous fiscal year.

Revenues
Total revenues, which include sales and other income, rose $6.6 million or 0.2% to $2.882 billion for the fourth quarter ended June 4, 2007 compared with $2.875 billion for the fourth quarter ended May 27, 2006.

Canada: Revenues from Canadian operations increased to $485.7 million for the fourth quarter ended June 4, 2007, an increase of $41.8 million or 9.4% over revenues for the fourth quarter ended May 27, 2006. Canadian revenues increased by 8.6%, excluding the impact of currency exchange rate fluctuations. During the fourth quarter, there were 5 store openings including 2 relocations, as well as 1 store closure in the PJC franchised stores network. Sales increases reflected growth resulting from recent network development activity and previous period openings and renovations. For the fourth quarter ended June 4, 2007, on a same-store basis and in local currency, total PJC retail sales grew 6.4%, pharmacy sales gained 8.1% and front-end sales picked up 3.7% year-over-year.

United States: Revenues from US operations decreased to $2.396 billion for the fourth quarter ended June 4, 2007, down $35.2 million or 1.4% from the fourth quarter last fiscal year. There were a total of 6 new store openings, including 5 relocations along with 3 closures during the fourth quarter of fiscal 2007 bringing our US network to 1,854 Brooks and Eckerd stores prior to the closing of the Rite Aid transaction on June 4, 2007. During the fourth quarter of fiscal 2007 and on a same-store basis, total retail sales decreased 1.0%, pharmacy sales declined 1.3% and front-end sales decreased 0.2% year-over-year.

Gross profit
Canada: Gross profit from Canadian operations was $39.2 million for the fourth quarter ended June 4, 2007 compared to $36.0 million for the quarter ended May 27, 2006. Gross margin was 9.0% for the fourth quarter ended June 4, 2007 compared with 9.1% for the quarter ended May 27, 2006.

United States: Gross profit from US operations amounted to $616.9 million for the fourth quarter ended June 4, 2007 compared with $618.4 million for the quarter ended May 27, 2006. Gross margin increased to 25.8% for the fourth quarter ended June 4, 2007 compared with 25.5% for the quarter ended May 27, 2006.

Other revenues
Other revenues, which are included in total revenues in the Company's Consolidated Financial Statements, increased to $52.7 million in the fourth quarter of fiscal 2007 from $48.9 million for the fourth quarter of fiscal 2006. The increase is due principally to the impact of additional retail sales on royalties combined with currency exchange rate fluctuations on revenues earned in Canadian operations.

General and operating expenses
General and operating expenses for the fourth quarter ended June 4, 2007 were $579.6 million, up from $574.3 million for the quarter ended May 27, 2006, an increase of $5.3 million or 0.9%. It represented 20.1% of revenues compared with 20.0% a year earlier.

Canada: General and operating expenses performance for the quarter represented 8.3% of revenues versus 9.2% for the fourth quarter last fiscal year. The improvement reflects better absorption of fixed overheads due to increased revenues.

United States: General and operating expenses for the quarter represented 22.5% of revenues in the United States versus 21.9% for the period a year earlier. This item increased from $533.4 million in the fourth quarter of fiscal 2006 to $539.4 million in the fourth quarter of fiscal 2007, an increase of $6.0 million or 1.1%.

Restructuring charges
The Company adopted a transition pay program associated with the disposal of the retail sales segment. The charges related to this program amount to $25.8 million ($14.5 million after-tax) for the fourth quarter of fiscal 2007.

OIBA
Fiscal 2007 fourth quarter OIBA was impacted by certain restructuring charges principally related to the transition pay program associated with the transaction. OIBA before restructuring charges increased to $130.2 million in the fourth quarter ended June 4, 2007 from $129.9 million in the fourth quarter ended May 27, 2006 and ended both periods at 4.5%.

OIBA for the Company's Canadian operations for the fourth quarter ended June 4, 2007 increased to $49.4 million compared with $41.8 million for the fourth quarter ended May 27, 2006, an increase of 18.2% or 17.1% in local currency, due to strong top line growth. OIBA as a percentage of revenues in local currency ended the quarter at 10.1% compared with 9.4% in 2006. OIBA before restructuring charges for US operations decreased to $80.8 million this quarter from $88.1 million for the equivalent period last year, reflecting challenges prior to the closing of the Rite Aid transaction.

Amortization
Amortization charges decreased to $3.4 million during the fourth quarter of fiscal 2007, down $41.3 million from $44.7 million in the corresponding period in fiscal 2006. Since August 23, 2006, the Company ceased amortizing the assets related to its US operations since they were classified as assets held for sale. Amortization charges amounting to $73.6 million were reversed in consolidation during the fourth quarter of fiscal 2007. An impairment loss in the amount of $17.0 million was recorded in the fourth quarter of 2007 and approximately $12.5 million of favorable changes in estimates was recorded in the fourth quarter of fiscal 2006.

Financing expenses
Financing expenses were $67.7 million during the fourth quarter of fiscal 2007, an increase of $14.8 million over the fourth quarter of fiscal 2006, due principally to realized foreign exchange losses on monetary items in 2007. The weighted average interest rate on the Company's long-term debt was 8.1% during the fourth quarter of fiscal 2007 compared with 7.8% for the corresponding period of fiscal 2006.

Income taxes
There was an income tax expense of $10.2 million in the fourth quarter of fiscal 2007 compared with $1.1 million for the equivalent period last year. The income tax expense for the current fiscal quarter includes an amount of $62.7 million in relation with the gain on sale of the retail sales segment. Such expense includes a charge in the amount of $58.7 million related to the unwinding of the financing structure which does not reflect amendments in draft legislation. In the event these measures become substantively enacted, it is expected that the charge of $58.7 million ($0.22 per share) will be reversed.

FINANCIAL POSITION

Total assets were $2.208 billion as at June 4, 2007, a decrease of $3.383 billion or 60.5% from May 27, 2006. Pursuant to the sale of the retail sales segment on June 4, 2007, the Company no longer directly operates corporate drugstores in the United States, which current and long-term assets amounted to $4.818 billion on closing, but rather holds a 32% common equity interest in Rite Aid, valued at $1.475 billion on closing.

Rite Aid Corporation – Selected Financial Information

Consolidated balance sheets as at March 3, 2007 and March 4, 2006

(in millions of US dollars)	**2007** **$**	2006 $
Current assets	**2,953.0**	2,884.8
Property, plant and equipment	**1,743.1**	1,717.0
Goodwill	**656.0**	656.0
Other intangibles	**178.2**	193.3
Deferred tax assets	**1,381.0**	1,392.9
Other assets	**179.7**	144.4
Total assets	**7,091.0**	6,988.4
Current liabilities	**1,589.9**	2,143.3
Long-term debt	**2,910.0**	2,298.7
Other long-term liabilities	**928.3**	939.5
Stockholders' equity	**1,662.8**	1,606.9
Total liabilities and stockholders' equity	**7,091.0**	6,988.4

Consolidated statement of operations for the fiscal years ended March 3, 2007 and March 4, 2006

(in millions of US dollars)	**2007** **$**	2006 $
Revenues	**17,507.7**	17,271.0
Costs and expenses		
Cost of goods sold	**12,791.6**	12,571.9
Selling, general and administrative expenses	**4,370.5**	4,307.4
Store closing and impairment charges	**49.3**	68.7
Interest expense	**275.2**	277.0
Other	**7.5**	2.7
	17,494.1	17,227.7
Income before income taxes	**13.6**	43.3
Income tax benefit	**(13.2)**	(1,229.7)
Net income	**26.8**	1,273.0

The above Rite Aid selected financial information, derived from their Form 10-K filed on April 30, 2007, does not reflect the acquisition of the Company's US operations on June 4, 2007 and the related financing.

Readers are referred to Note 4 of the Consolidated Financial Statements for a comparison of the assets of the US operations prior to closing with the comparative figures as at May 27, 2006 as well as Note 9 of the Consolidated Financial Statements for a discussion on the Rite Aid investment.

Cash and cash equivalents, which amounted to $135.8 million as at May 27, 2006, decreased to $38.5 million as at June 4, 2007.

Net changes in non-cash operating asset and liability items represented a $5.5 million decrease for fiscal 2007 compared with $164.0 million in fiscal 2006. Readers are referred to Note 25 of the Consolidated Financial Statements for a listing of the net changes in non-cash operating asset and liability items.

Long-term debt decreased by $2.383 billion during the fiscal year, from $2.391 billion at the end of fiscal 2006 to $7.6 million as at June 4, 2007. Principally as a result of the sale of the retail sales segment, the Company used cash to repay long-term debt in the amount of $2.384 billion during the year. The Company repaid all of the term loans maturing in 2009 and 2011 and substantially all of the $350.0 million unsecured senior notes (approximately 99.9% of these notes have been tendered) and the $850.0 million unsecured senior subordinated notes (approximately 99.7% of these notes have been tendered). For further details, readers are referred to Note 14 of the Consolidated Financial Statements.

Shareholders' equity amounted to $1.906 billion as at June 4, 2007, an increase of $340.7 million from May 27, 2006, resulting principally from net earnings of $140.8 million, net of dividends of $27.8 million. In addition, there was an increase of $224.2 million in the foreign currency translation adjustments account due mainly to the recognition of the foreign currency adjustments related to the interest sold in US operations.

The following table provides a summary of information with respect to the Company's financial position at the end of the fiscal years indicated. Readers are also referred to the footnotes of the Consolidated Financial Statements, and to publicly available credit and debt agreements.

	As at June 4, 2007	As at May 27, 2006
Net debt / LTM OIBA [(1)]	**N/A**	4.5
LTM OIBA / LTM Interest [(1)]	**2.3**	2.4

[(1)] LTM: Last twelve months.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash flows are generated by: i) the sale of prescription drugs and other products by corporate-owned stores, ii) merchandise sales to, and rent received from, PJC franchised stores, iii) the collection of royalties from PJC franchisees, and iv) rent from properties leased to tenants other than franchisees. These cash flows are used: i) to purchase products and services for resale, ii) to finance operating expenses, iii) for debt service, iv) for real estate investments, and v) to finance capital expenditures incurred to renovate and open stores, and replace equipment. We have typically financed capital expenditures and working capital requirements through cash flow from operating activities. The Company's larger acquisitions have been financed through long-term debt and equity.

Cash flow from operating activities

Cash provided by operating activities was $111.6 million for the fiscal year ended June 4, 2007, compared with $164.7 million in fiscal 2006. The $139.3 million gain on sale of the retail sales segment and the $64.1 million write-off of deferred financing fees recorded during fiscal 2007 are non-cash items. Net changes in non-cash operating asset and liability items represented a $5.5 million decrease in fiscal 2007 compared with $164.0 million in fiscal 2006. Readers are referred to Note 25 of the Consolidated Financial Statements for a listing of the net changes in non-cash operating asset and liability items.

Cash flow from investing activities

Cash provided by investing activities was $2.180 billion for the fiscal year ended June 4, 2007 compared with $33.3 million in fiscal 2006. Net proceeds from disposal of the retail sales segment on June 4, 2007 amounted to $2.312 billion. Readers are referred to Note 4 of the Consolidated Financial Statements for more information on the transaction. $1.7 million was used to acquire investments and temporary investments in fiscal 2007 compared with $74.3 million provided by this activity in fiscal 2006. $135.7 million was used to acquire capital assets in fiscal 2007 compared with $167.5 million in fiscal 2006. During fiscal 2007, 26 new drugstores were opened, of which 15 were relocations. 4 stores were acquired, 18 drugstores were closed and several others were expanded or renovated. During fiscal 2006, the Company received proceeds of $130.5 million from the disposal of certain real estate assets of its Canadian franchising segment, as well as the former Eckerd headquarters.

In the twelve-month period beginning June 5, 2007, the Company plans to allocate approximately $C 60 million to capital expenditures and incentives to franchisees and another $C 40 million is expected to be invested by franchisees in Canada. The Company's planned capital expenditures will be funded entirely from internally generated cash flow.

Cash flow from financing activities
During the fiscal year ended June 4, 2007, $2.406 billion was used in financing activities compared with $206.7 million in fiscal 2006. During fiscal 2007, the Company repaid long-term debt in the amount of $2.384 billion compared with a $177.3 million in fiscal 2006. As a result of the sale of the retail sales segment, the Company has repaid all of the term loans maturing in 2009 and 2011 and substantially all of the $350.0 million unsecured senior notes and the $850.0 million unsecured senior subordinated notes. During fiscal 2007, the Company received net proceeds of $1.8 million from the issuance of capital stock compared with net proceeds of $0.4 million in fiscal 2006. The Company paid dividends of $ 27.8 million in fiscal 2007 compared with $27.0 million in fiscal 2006. The Company paid a quarterly dividend of $C 0.03 per Class A subordinate voting share and Class B share, resulting in an annualized dividend payment of $C 0.12 per share during fiscal 2007 and fiscal 2006.

In fiscal 2007, the net result of the Company's operating, investing and financing activities was a decrease in cash balance of $97.3 million. The Company had $38.5 million of cash and cash equivalents as at June 4, 2007 compared with cash and cash equivalents of $135.8 million as at May 27, 2006.
The following table presents selected data from the consolidated statements of cash flows for the fourth quarters ended June 4, 2007 and May 27, 2006.

(in millions of US dollars)	**Q4-2007** **$**	Q4-2006 $
Selected data – Consolidated Statements of Cash Flows		
Cash flow provided by (used in) operating activities	**(146.4)**	156.5
Cash flow provided by (used in) investing activities	**2,299.2**	(27.8)
Cash flow used in financing activities	**(2,252.2)**	(103.9)
Foreign currency translation adjustments	**22.5**	(3.8)
Increase (decrease) in cash and cash equivalents	**(76.9)**	21.0
Cash and cash equivalents, beginning of period	**115.4**	114.8
Cash and cash equivalents, end of period	**38.5**	135.8

Cash flow from operating activities
Cash used in operating activities was $146.4 million for the fourth quarter ended June 4, 2007 compared with cash provided by these activities $156.5 million for the equivalent period in fiscal 2006. The $139.3 million gain on sale of the retail sales segment and the $64.1 million write-off of deferred financing fees recorded during the quarter are non-cash items.

Cash flow from investing activities
Cash provided by investing activities was $2.299 billion for the fourth quarter ended June 4, 2007 compared with cash used of $27.8 million in the fourth quarter of fiscal 2006. Proceeds from disposal of the retail sales segment on June 4, 2007 amounted to $2.312 billion. Readers are referred to note 4 of the Consolidated Financial Statements for more information on the transaction. $3.9 million was used to acquire investments and temporary investments in the fourth quarter of fiscal 2006. $17.2 million was used to acquire capital assets in the fourth quarter of fiscal 2007 compared with $53.6 million for the equivalent period in fiscal 2006. During the fourth quarter of fiscal 2006, the Company received proceeds of $32.6 million from the disposal of capital assets.

Cash flow from financing activities
During the fourth quarter ended June 4, 2007, $2,252 billion was used in financing activities compared with $103.9 million for the fourth quarter of fiscal 2006. During the fourth quarter of fiscal 2007, the Company repaid long-term debt in the amount of $2.245 billion compared with a $94.5 million in the fourth quarter of fiscal 2006. As a result of the sale of the retail sales segment, the Company has repaid all of the term loans maturing in 2009 and 2011 and substantially all of the $350.0 million unsecured senior notes and the $850.0 million unsecured senior subordinated notes. The Company paid dividends of $7.2 million in the fourth quarter of fiscal 2007 compared with $7.0 million for

the equivalent period in fiscal 2006. The Company paid a quarterly dividend of $C0.03 per Class A subordinate voting share and Class B share in both periods.

In the fourth quarter of fiscal 2007, the net result of the Company's operating, investing and financing activities was a decrease in cash balance of $76.9 million.

The Company closed concurrently with the transaction with Rite Aid a new financing for working capital and general corporate purposes. Effective June 4, 2007, the Company is bound by a new unsecured revolving credit facility maturing on June 4, 2012, in the amount of $C 500.0 million. This credit facility has an initial term of 5 years that could be extended each year to its initial 5-year term. As at June 4, 2007, available credit facilities were unused, with the exception of outstanding letters of credit in the amount of $C 0.3 million.

The Company has operating liquidities and access to credit facilities to finance its operating activities and is in compliance with all of its bank covenants as at June 4, 2007.

As a result of the repayment of debts on June 4, 2007, ratings for the Company's credit facilities and senior notes have been withdrawn by the following rating agencies: Standard & Poor's, Moody's Investors Service, Fitch Ratings and Dominion Bond Rating Service.

CAPITAL STOCK

As at June 4, 2007 and August 2, 2007, the total number of Class A subordinate voting shares (TSX: PJC.A) issued and outstanding was 144.5 million (2006 – 142.3 million) and the number of Class B shares amounted to 117.4 million (2006 – 119.4 million), for a total of 261.9 million shares outstanding (2006 – 261.7 million).

During the current fiscal year, 2.0 million Class B shares were exchanged for an equivalent number of Class A subordinate voting shares and 0.2 million new Class A subordinate voting shares were issued due to the exercise of stock options. During the fiscal year ended May 27, 2006, there were 0.1 million Class A subordinate voting shares issued due to the exercise of stock options.

On June 29, 2007, the Company announced its intention to purchase for cancellation up to 13,672,800 of its outstanding Class A subordinate voting shares, representing approximately 10% of the current public float of such shares, over a 12-month period ending no later than July 3, 2008. Purchases will be made from time to time through the facilities of the Toronto Stock Exchange and in accordance with its requirements. The Company did not purchase any such shares for the period from June 29 to August 2, 2007.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The table below presents a summary of the Company's material contractual cash obligations as of June 4, 2007, for the periods indicated under our long-term debt, long-term leases, inventories, services and capital assets commitments:

	Payments due in years				
(in millions of US dollars)	**2008** **$**	**2009-2010** **$**	**2011-2012** **$**	**2013 and thereafter** **$**	**Total** **$**
Long-term debt, including capital lease obligations	0.6	5.7	0.4	0.9	7.6
Operating lease obligations	30.0	53.8	44.7	129.9	258.4
Purchase commitments	16.9	11.2	3.5	-	31.6
Total	47.5	70.7	48.6	130.8	297.6

Long-term debt
On July 31, 2004, the Company completed the Eckerd acquisition. This acquisition was funded by a combination of long-term credit facilities, notes and the issuance of subordinate voting shares. As a result of the sale of the retail sales segment, the Company repaid all of its term loans and substantially all of the notes and, as a result, long-term debt, including current portion, amounted to only $7.6 million as at June 4, 2007 compared with $2.391 billion as at May 27, 2006. For further details, readers are referred to Note 14 of the Consolidated Financial Statements.

Operating lease obligations
The Company leases a substantial portion of its real estate using conventional operating leases. Generally, the Company's real estate leases are for primary terms of 10 to 20 years with options to renew.

Operating lease obligations until 2047 amounted to $258.4 million, and are mostly in connection with leased properties. The Company has also signed lease and sublease agreements under which it will receive minimum payments totaling $271.5 million until 2047; these payments are not included in the table of contractual commitments above.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company does not currently make use of any off-balance sheet arrangements that currently have, or that we expect are reasonably likely to have, a material effect on financial condition, results of operations or cash flow. The Company uses operating leases for many of its Canadian store locations, and, from time to time, engages in sale-leaseback transactions for financing purposes. The Company does not use special purpose entities in any of its leasing arrangements.

During fiscal 2007, the Company was exposed to market risk relating to changes in interest rates with regard to its variable rate debt. During fiscal 2007, the Company had $1.0 billion of debt which bore interest at floating rates (2006 - $1.2 billion).

During fiscal 2005, the Company entered into interest rate swap agreements maturing in July 2011 to fix the LIBOR rate on a notional portion of $200 million of the Company's term loan facilities at 4.11%. These transactions qualified for hedge accounting up to August 23, 2006, at which time they no longer qualified as a result of the announced disposal of US operations. On May 29, 2007, the Company terminated these contracts and the gains related to these derivatives were recognized to earnings.

Other than the transactions mentioned herein, the Company has not taken any other specific actions to cover its exposure to interest rate risk. Depending on the interest rate environment and subject to approval by the Board of

Directors, the Company may make use of other derivative financial instruments or other interest rate management vehicles in the future.

Guarantees and buyback agreements

The Company has guaranteed the reimbursement of certain bank loans contracted by franchisees for a maximum amount of $2.4 million (2006 - $5.0 million). The Company is also committed to financial institutions to purchase the equipment and inventories of certain of its franchisees. As at June 4, 2007, the maximum value of the equipment and inventories buyback agreements was $18.3 million and $59.9 million respectively ($22.3 million and $55.7 million in 2006).

On June 4, 2007, the Company sold its US operations to Rite Aid. In addition to possible indemnification relating to the breach of representations or warranties, the Company agreed to enter into certain customary indemnification obligations in favor of the purchaser that are described in Note 20 of the Consolidated Financial Statements.

FOREIGN EXCHANGE RISK MANAGEMENT

Even though the Company's reporting currency is the US dollar, non-consolidated financial statements of the parent company and its subsidiaries are prepared based on their respective functional currencies, which is the US dollar for US operations and the Canadian dollar for Canadian operations and corporate activities.

Transactions denominated in currencies other than an entity's functional currency are translated according to the temporal method. Under this method, monetary assets and liabilities in foreign currencies are translated at the exchange rate in effect at the balance sheet date, non-monetary assets and liabilities in foreign currencies at their historical rates, and statement of earnings items in foreign currencies at the average monthly exchange rates. All exchange gains and losses are current in nature and are included in the consolidated statement of earnings, unless subject to hedge accounting.

RELATED PARTY TRANSACTIONS

Our operations include transactions with an enterprise controlled by an executive with significant influence on the Company. As at June 4, 2007 and May 27, 2006, Mr. François J. Coutu, President of Canadian Operations and Vice-Chairman of the Company, owned a PJC franchise. The transactions between the Company and this enterprise are executed in the normal course of business and measured at the exchange amount. Details are included in Note 23 of the Consolidated Financial Statements.

As at June 4, 2007, accounts payable and accrued liabilities include an amount of $43.9 million due to Rite Aid, a company subject to significant influence, representing the selling price adjustment with regards to the disposal of the retail sales segment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

This MD&A is based on the Company's Consolidated Financial Statements, which have been prepared in accordance with Canadian GAAP. The preparation of these Consolidated Financial Statements and related notes requires the Company's management to make certain estimates and assumptions that affect the reported amounts. These estimates are based on historical experience and various other assumptions that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The sensitivity analysis included in this section should be used with caution as the changes are hypothetical and the impact of changes in each assumption may not be linear.

Inventories

Inventories consist primarily of products acquired for resale, including prescription drugs and over-the-counter medications, as well as household, cosmetics and photography products. Inventories are valued at the lower of cost and net realizable value, the cost being determined using either the first in, first out method, the average unit cost or retail selling price less a normal gross profit method.

Investments
Investments in companies subject to significant influence are accounted for using the equity method. Other investments are accounted for using the cost method.

Periodically, Management analyses each investment and whenever an adverse event or changes in circumstances indicate that the carrying value of the investments may not be recoverable, the Company considers whether the fair value of the investments have declined below their carrying value and if the decline is considered to be other than temporary, the investments are written down to fair value and a loss is recognized in the consolidated statement of earnings.

Sensitivity analysis: A $1.00 decline in the fair value of the common stock of Rite Aid below the current carrying value per share, considered by Management to be other than temporary, would have had a $250.0 million (or $0.95 per Jean Coutu Group share) pre-tax effect on results for the fiscal year ended June 4, 2007.

Intangible assets
Intangible assets with a finite service life are accounted for at cost and amortized on a straight-line basis. They consist mainly of customer prescription files, non-compete agreements and favorable leases. Prescription files are amortized over a five to ten-year period, non-compete agreements over the terms of the agreements, and favorable leases resulting from a business acquisition are amortized over the remaining life of the leases. The use of different assumptions with regard to the duration of useful life could give rise to different book values for intangible assets.

Intangible assets with indefinite service life representing trade name are accounted for at cost and are not amortized. Trade name is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

Goodwill
Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired and is not amortized. Goodwill is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. An impairment test may be necessary if a return is clearly insufficient in relation to historical or projected operating results, material changes in the use of acquired assets or in the Company's broad strategy, and significant negative economic or segmented trends. For the purposes of its analysis on impairment, the Company uses estimates and assumptions to establish fair value. If these assumptions are incorrect, the carrying value of goodwill may have been overstated.

Other long-term assets
Other long-term assets are mainly the incentives paid to franchisees and deferred costs. Incentives paid to franchisees are amortized over a ten-year period and amortization is applied against royalties, included in other revenues. Deferred costs are accounted for at cost and were mainly financing fees. Amortization was calculated using the straight-line method over the term of the long-term loan and recorded in financing expenses. The use of different assumptions with regard to useful life or term could give rise to different book values for these items.

Impairment of long-lived assets
The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows expected to be generated from utilizing these assets to their carrying amounts. If the cash flows are not sufficient to recover the carrying amount of the assets, the impairment has occurred, and the long-lived assets are written down to their respective fair values.

Defined benefit pension plans
The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement age of employees. The use of different assumptions could result in different book values.

CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies that had an impact on the Company's Consolidated Financial Statements in fiscal 2007. Readers are referred to Note 2 of the Consolidated Financial Statements for a full description of the changes in accounting policies in fiscal 2006.

FUTURE ACCOUNTING STANDARDS

Financial instruments
In April 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3855, ''Financial Instruments – Recognition and Measurement'', effective for fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This Section requires that all financial assets and financial liabilities be measured at fair value on initial recognition, with certain exceptions such as loans and investments that are classified as held-to-maturity; all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value and all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship. This Section will be effective for the Company as of June 5, 2007 and will be adopted retrospectively without restatement. The impact of the adoption of this new section on the Company's consolidated financial statements is not expected to be material.

Comprehensive income
In April 2005, the CICA issued Handbook Section 1530, ''Comprehensive Income''. It describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings such as changes in currency translation adjustments relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale investments. In April 2005, the CICA also made changes to Handbook Section 3250, ''Surplus'', and reissued it as Section 3251, ''Equity''. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of Section 1530. These Sections are effective for fiscal years beginning on or after October 1, 2006, therefore will be effective for the Company as of June 5, 2007, and will be adopted retrospectively without restatement. These Sections will require the Company to start reporting the following items in its consolidated financial statements: comprehensive income and its components and accumulated other comprehensive income and its components.

RISKS AND UNCERTAINTIES

In order to protect and increase shareholder value, the Company has introduced an Enterprise Risk Management Program. Our program sets out principles, processes and tools allowing us to evaluate, prioritize and manage risks as well as improvement opportunities for the Company in an efficient and uniform manner. This leads to an integrated approach for risk management helping us achieve our strategic objectives.

Our framework has the following characteristics:

- It provides an understanding of risks across the Company;
- For each of the risks, we have evaluated the potential impacts on the following three elements: Company performance, franchisee network performance as well as customer service quality, and the impact on our reputation and on our corporate image.
- We have evaluated our tolerance to risk before establishing the controls necessary to reach our goals.

Summary of the most significant risks:

Categories	Area of risk	Potential impacts on: Company performance	Franchisee network performance and customer service quality	Reputation and corporate image
External factors	Competition	✓	✓	✓
	Laws and regulations	✓	✓	✓
Investment	Rite Aid investment	✓		
Operations	Franchisee network	✓	✓	✓
	Procurement	✓	✓	
	Logistics / distribution	✓	✓	
	Pharmacy services		✓	✓
Finances	Financial reporting	✓		✓
	Management information	✓	✓	
Resources	Hiring, employee retention and organizational structure	✓	✓	✓
Information technology tools	Systems efficiency and disaster recovery plan	✓	✓	✓

Competition

The Canadian retail industry is constantly changing and we operate in a highly competitive market. Customer needs dictate the industry's evolution. Over the last few years, customers have been requiring a larger variety of products, increased value and personalized service. The Company's inability to proactively fulfill these conditions could prove to have a negative effect on its competitive edge, therefore on its financial performance. The Company believes that its franchisee network is well positioned to compete against other drug store chains, as well as mass merchants and large supermarket chains and independent drugstores by concentrating on providing a high level of professional service and focusing on patient health and wellness. While other players may compete on price, our customer is attracted to the Company's pharmacy and other services offered through the network and the fact that our stores are situated in convenient locations, with extended opening hours, and a broad selection of health, beauty and other convenience items.

We closely monitor the competition, their strategies, market developments as well as our market share. We have the following advantages over our competition: our network of 328 franchised drugstores, our lines of private label (*Personnelle*) and exclusive products and our distribution centre network. Processes are in place in order to ensure that our marketing concepts meet customer expectations. Pilot projects are tested in order to evaluate the impact of said changes on profitability and customer satisfaction. Exclusive to our drugstore chain in the province of Québec, our AIR MILES® customer reward program provides us with a competitive edge and has a positive impact on customer loyalty.

Laws and regulations

We are constantly facing risks related to the regulated nature of our industry in addition to all the other regulations, which we are also subject to. Compliance relates to many different aspects, amongst others are; laws related to prescription drugs and professional code of ethics, protection of personal information, health insurance law, prescription drug plan, health care, salary equity, minimum wage commission, income tax laws and others. Any changes in laws and regulations or policies regarding the Company's activities could have a material adverse effect on our financial performance.

We have introduced processes to ensure prompt follow up on changes in new laws or modifications of existing laws, as well as our compliance with such laws. Our management system regarding health and safety allows us to ensure that appropriate procedures are followed in order to diminish the risk of injury in the work place.

During calendar 2007, changes in the Québec prescription drug plan, (Bill 130, *La Politique du Médicament* or the "Plan"), were introduced and detailed Plan regulations were released mid-year. The Plan is expected to come into force during the second half of calendar 2007. Its legislative changes reform and aggressively manage the prescription drug system framework in the province of Québec. Here is a short excerpt of the most important elements:

- **Lowering the guaranteed prescription drug selling price**
  Under the Plan, the price of the first generic prescription drug will be limited to 60% of the price of the original listed comparator product, and the second and subsequent products will be limited to 54% of the original listed price of the comparator product. Notwithstanding these limits, generic prescription drug prices cannot be higher than in any other province in Canada.
- **Reduction in the maximum wholesaler margin**
  The maximum wholesaler margin for prescription drugs under the Plan will be reduced from 9% to 7%.
- **Increase in brand drug prices**
  The Plan allows for the increase in certain brand drug prices, which occurred at the end of June 2007.
- **Generic allowances**
  The provision and acceptance of rebates from manufacturers on listed drug prices in prohibited. However, retail pharmacists are permitted to receive manufacturers' professional allowances. The amount of such professional allowances is capped under the Plan at 20% of total generic drug purchases under the Plan formulary.

Rite Aid investment
As the leading Rite Aid shareholder with a 32% equity interest, we are exposed to risks related to Rite Aid's financial performance as well as changes in US Canadian dollar exchange rates. The US drugstore market in which Rite Aid operates is very competitive and further increases in competition could adversely affect their financial performance. Drug benefit plan sponsors and third party payers could change their plan eligibility criteria and further encourage or require the use of mail-order prescriptions which could decrease Rite Aid's sales and margins and have a material adverse affect on their business. As well, changes in third party reimbursement levels for prescription drugs could reduce their margins. Rite Aid is subject to governmental regulations, procedures and requirements; their non compliance or a significant regulatory change could adversely affect their business, results of operations and financial performance. Rite Aid has incurred significant indebtedness in connection with the acquisition of the Brooks and Eckerd drugstore chains, and the resulting debt service obligations may significantly limit their ability to execute their business strategy and increase their risk of default under their debt obligations. Although Rite Aid expects that the transaction will result in benefits, the company may not realize the expected synergies because of integration difficulties. The integration activities are complex and time-consuming and Rite Aid may encounter unexpected difficulties or incur unexpected costs.

We have taken measures to monitor the progress of Rite Aid’s integration plan as well as strategic decisions to be made. Our four seats on their Board of Directors will allow us to participate in this decisional process and monitor the evolution of Rite Aid's market share and sales growth in order to evaluate their competitive position. The integration of the Brooks Eckerd drugstores into the Rite Aid network will accelerate Rite Aid's growth strategy, allowing it to reach a size comparable to its principal competitors, which should have a positive impact on their future financial performance.

The Jean Coutu Group's 250 million Rite Aid shares are not registered and therefore cannot be readily monetized. The Jean Coutu Group may sell the shares pursuant to a registered underwritten public offering under the United States Securities Act or in accordance with Rule 144 under such Act. The sales of a significant number of Rite Aid shares by the Company or other stockholders could cause Rite Aid's stock price to decrease. These shares are subject to a Stockholder Agreement, available to readers using the following link to the www.sedar.com website.

Franchisee network
As franchisor of a 328 franchised drugstore network, we run the risk that some franchisees may not follow purchasing policies, marketing plans or established operating standards. This could substantially impact our financial performance as well as our reputation and our corporate image. In order to reduce such risks to a reasonable level, we employ a team of operations consultants to monitor store level activity and ensure that the Company's marketing strategy and development standards are followed.

Procurement
We have established solid and lasting business relationships with many suppliers across the world, most of which are global industry leaders. In order to maximize profit margins and to improve our competitive position, we negotiate favorable purchasing conditions with suppliers, which allow us to offer better pricing to our drugstore network. Our sales volume, the variety of products and inventory levels are impacted by seasonality, weather conditions and holidays such as Christmas, Valentine's Day, Mother's Day and others. The purchase of imported goods, exclusive and brand products can result in overstocks and financial risk. We have effective inventory management systems in place and employ efficient procedures for the monitoring of inventory turnover and obsolescence. This decreases inventory related risks to a reasonable level.

We are also subject to potential responsibility related to commercial activities, notably the risks related to defective products and to product handling. Procedures have been put in place in order to address such risks. Our suppliers are responsible for the quality of their products, and, in situations of non compliance, they would have to assume said risks. We have controls in place to ensure that our high quality standards are respected for our *Personnelle* private label line of products, which is manufactured by independent suppliers under contract, in order to protect the value of our label. We use the same standards to evaluate our lines of exclusive products. Furthermore, we have initiated procedures to remove potentially dangerous products from the market and to quickly communicate any situation to employees and clients. We use the best practices for storage, physical safety and distribution of the products we sell.

Logistics / distribution
In order to ensure an efficient and high quality service to our franchisees, storage and distribution processes are strategically located in order to optimize service levels. We operate two (2) distribution centres, situated close to main highway routes in the provinces of Québec and Ontario. Many actions were employed to ensure a continuous follow up on distribution operations so that standards and rules are abided by. Annual surveys are conducted with our franchisees to evaluate performance and time/movement studies are also completed when necessary to evaluate and improve performance.

Pharmacy services
Through our participation in the drugstore industry, we are exposed to professional risks related to managing confidential information as well as the possibility of prescription errors. This could have a significant impact on our reputation and corporate image. Many procedures have been put in place to reduce these risks to a reasonable level. Amongst others, we have developed a continuous training program for employees (technical and pharmacists), procedures for confidential information management as well as pharmacy department operation manuals. We monitor franchisee compliance with established professional standards.

Financial reporting
The Company has an obligation to comply with securities laws covering financial reporting as well as for general accepted accounting standards to ensure complete, accurate and timely issuance of financial disclosures and other material information disclosed to the public. To ensure that the Company fulfils its obligations and that it reduces the risk related to erroneous or incomplete financial reporting, it has established a disclosure policy as well as internal financial disclosure procedures.

Management information
In order to follow up on the performance of our operations, the Company relies on financial management information. It is essential that this information be relevant, reliable and available on a timely basis in order to avoid any unfavorable impact on managing our operations. Through its Finance group, the Company relies on qualified personnel to uphold the policies, processes and efficient information systems in order to provide reasonable assurance that relevant information is recorded, processed and reported on a timely basis.

Hiring, employee retention and organisational structure

Our recruiting program, salary structure, performance evaluation programs, succession and training plans all entail risks that could negatively impact our capacity to execute our strategic plan as well as our ability to attract and retain necessary qualified resources to sustain the Company's growth and success. We have proven practices to attract the professionals necessary for our franchised drugstore network and employ effective programs in universities explaining the various advantages to joining our network. We use performance evaluation practices supervised by our human resources department. Our salary structure is regularly monitored in order to ensure that we remain competitive on the market. Our Longueuil, Québec distribution centre employees are subject to a collective agreement that expires on December 31, 2011.

Systems efficiency and disaster recovery plan

We use advanced information technology systems that cover all of our major activities. The continuity of our operations would be directly affected in case of non availability of these information technology systems, having a direct impact on our sales, therefore, on our profitability. In order to reduce technology related risks, controls such as a disaster recovery plan and controls over unauthorized access have been put in place. For many years, the Company has access to a high availability disaster recovery site, where it has the necessary infrastructure to replicate all transactions, databases and applications essential to daily operations.

Management's Annual Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chairman of the board, President and Chief Executive Officer (CEO) and the Senior Vice-President, Finance and Corporate Affairs (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the design and the effectiveness of the Company's disclosure controls and procedures was conducted as of June 4, 2007, by and under the supervision of Management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures, as defined in Canada by Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that the Company files or submits under securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and forms.

Internal Control over Financial Reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Management is responsible for establishing and maintaining adequate internal control over financial reporting at the Company.

The Company's Management, including the CEO and CFO, has evaluated the design of the Company's internal control over financial reporting using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management has concluded that internal control over financial reporting was properly designed as of June 4, 2007.

The Company will continue its preparation work over the coming fiscal years in order to comply with the final requirements of Multilateral Instrument 52-109, The Evaluation by Management of the Effectiveness of Internal Control over Financial Reporting. According to representation made to date by the *Canadian Securities Administrators*, The Jean Coutu Group would have to issue its first evaluation report for the 2009 fiscal year, at the earliest.

Changes in Internal Control over Financial Reporting

As disclosed thereunder, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to have materially affected, the Company's internal control over financial reporting, for the fiscal year ended June 4, 2007.

STRATEGIES AND OUTLOOK

With the operations in Canada and a significant interest in a United States' drugstore leader, the Company is well positioned to capitalize on the growth in the North American drugstore retailing industry. Demographic trends in Canada and the United States are expected to contribute to growth in the consumption of prescription drugs, and to the increased use of pharmaceuticals as the primary intervention in individual healthcare. Management believes that these trends will continue and that the Company will achieve sales growth through differentiation and quality of offering and service levels in its Canadian drugstore network, which it operates with a focus on sales growth, its real estate program and operating efficiency. In the twelve-month period beginning June 5, 2007, the Company plans to allocate approximately $C 60 million to capital expenditures and incentives to franchisees and another $C 40 million is expected to be invested by franchisees in Canada. The Company plans to open or relocate 19 stores, complete 44 store renovation and expansion projects and open 20 Boutiques Passion Beauté.

The completion of The Jean Coutu Group – Rite Aid transaction was a transformational event for the shareholders of the Company. The Company seized a unique strategic opportunity to optimize its U.S. presence by taking its investment in a regional drugstore chain and changing it into the leading ownership position in a national chain. In doing so, the Company is able to better participate in the growing U.S. drugstore industry and has a virtually debt-free balance sheet, enhancing financial flexibility. The Company's 32% equity interest in the expanded Rite Aid will allow shareholders to participate in the economic benefits of expected synergies, creating shareholder value.

August 2, 2007

Management's report with respect to financial statements

The consolidated financial statements of The Jean Coutu Group (PJC) Inc. contained herewith are the responsibility of management, and have been prepared in accordance with Canadian generally accepted accounting principles. Where necessary, management has made judgements and estimates of the outcome of events and transactions, with due consideration given to materiality. Management is also responsible for all other information in this report and for ensuring that this information is consistent, where appropriate, with the information and data included in the consolidated financial statements.

To discharge its responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets.

The Board of Directors carries out its responsibility relative to the consolidated financial statements principally through its Audit Committee, consisting solely of independent directors, which reviews the consolidated financial statements and reports thereon to the Board. The Committee meets periodically with the external auditors, internal auditor and management to review their respective activities and the discharge by each of their responsibilities. Both the external auditors and the internal auditor have free access to the Committee, with or without the presence of management, to discuss the scope of their audits, the adequacy of the system of internal controls and the adequacy of financial reporting.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. In addition, the Company's external auditors, Deloitte & Touche, LLP, are responsible for auditing the consolidated financial statements and providing an opinion thereon. Their report is provided hereafter.

/S/ Jean Coutu

President and Chief Executive Officer

/S/ André Belzile

Senior Vice-President, Finances and Corporate Affairs

Auditors' Report

To the Shareholders of
The Jean Coutu Group (PJC) Inc.

We have audited the consolidated balance sheets of The Jean Coutu Group (PJC) Inc. (the "Company") as at June 4, 2007 and May 27, 2006 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 4, 2007 and May 27, 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

/S/ Deloitte & Touche, L.L.P.

Chartered Accountants

August 2, 2007

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of earnings

For the fiscal years ended June 4, 2007 and May 27, 2006	2007	2006
(in millions of US dollars, unless otherwise noted)	$	$
	(Note 1b)	(Note 1b)
Sales	**11,469.7**	10,954.1
Other revenues (Note 3)	**205.9**	189.0
	11,675.6	11,143.1
Operating expenses		
Cost of goods sold	**8,837.2**	8,401.2
General and operating expenses	**2,309.3**	2,249.1
Restructuring charges (Note 4)	**54.3**	-
Amortization (Note 5)	**67.1**	227.9
	11,267.9	10,878.2
Operating income	**407.7**	264.9
Financing expenses (Note 6)	**215.6**	205.1
Gain on sale of the retail sales segment (Note 4)	**(139.3)**	-
Loss on early debt retirement (Note 14)	**168.3**	-
Earnings before income taxes	**163.1**	59.8
Income taxes (recovery) (Note 7)	**22.3**	(44.0)
Net earnings	**140.8**	103.8
Earnings per share, in dollars (Note 8)		
Basic	**0.54**	0.40
Diluted	**0.54**	0.40

Consolidated statements of retained earnings

For the fiscal years ended June 4, 2007 and May 27, 2006	2007	2006
(in millions of US dollars)	$	$
	(Note 1b)	(Note 1b)
Balance, beginning of year	**864.4**	787.6
Net earnings	**140.8**	103.8
	1,005.2	891.4
Dividends	**27.8**	27.0
Balance, end of year	**977.4**	864.4

The segmented information and the accompanying notes are an integral part of these consolidated financial statements.

THE JEAN COUTU GROUP (PJC) INC.

Consolidated balance sheets

(in millions of US dollars)	As at June 4, 2007 $	As at May 27, 2006 $
Assets		
Current assets		
Cash and cash equivalents	**38.5**	135.8
Accounts receivable	**153.7**	555.5
Income taxes receivable	**0.3**	16.5
Inventories	**130.5**	1,744.9
Prepaid expenses and other	**7.2**	47.3
	330.2	2,500.0
Investments (Note 9)	**1,509.6**	25.4
Capital assets (Note 10)	**301.9**	1,385.8
Intangible assets (Note 11)	**-**	689.4
Goodwill (Note 12)	**18.9**	876.8
Other long-term assets (Note 13)	**47.6**	113.6
	2,208.2	5,591.0
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**244.9**	1,079.4
Income taxes payable	**21.6**	0.2
Future income taxes (Note 7)	**-**	147.8
Current portion of long-term debt (Note 14)	**0.6**	78.8
	267.1	1,306.2
Long-term debt (Note 14)	**7.0**	2,312.0
Other long-term liabilities (Note 15)	**27.7**	407.1
	301.8	4,025.3
Shareholders' equity		
Capital stock (Note 17)	**579.7**	577.9
Contributed surplus	**4.1**	2.4
Retained earnings	**977.4**	864.4
Foreign currency translation adjustments (Note 18)	**345.2**	121.0
	1,906.4	1,565.7
	2,208.2	5,591.0

Guarantees, contingencies and commitments (Notes 20 and 21).

The segmented information and the accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board

/s/ Jean Coutu

Jean Coutu
Director

/s/ L. Denis Desautels

L. Denis Desautels
Director

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of cash flows

For the fiscal years ended June 4, 2007 and May 27, 2006	2007	2006
(in millions of US dollars)	$	$
	(Note 1b)	(Note 1b)
Operating activities		
Net earnings	**140.8**	103.8
Items not affecting cash		
Amortization	**84.2**	244.1
Gain on sale of the retail sales segment (Note 4)	**(139.3)**	-
Write-off of deferred financing fees (Note 14)	**64.1**	-
Future income taxes	**(34.2)**	(29.9)
Other	**1.5**	10.7
	117.1	328.7
Net changes in non-cash asset and liability items (Note 25)	**(5.5)**	(164.0)
Cash flow provided by operating activities	**111.6**	164.7
Investing activities		
Proceeds from disposal of the retail sales segment (Note 4)	**2,312.0**	-
Investments and temporary investments	**(1.7)**	74.3
Purchase of capital assets	**(135.7)**	(167.5)
Proceeds from disposal of capital assets	**8.1**	130.5
Purchase of intangible assets	**(2.1)**	(10.8)
Proceeds from disposal of intangible assets	**1.0**	8.7
Other long-term assets	**(2.1)**	(1.9)
Cash flow provided by investing activities	**2,179.5**	33.3
Financing activities		
Issuance of long-term debt, net of expenses	**4.6**	(2.8)
Repayment of long-term debt (Note 14)	**(2,384.1)**	(177.3)
Issuance of capital stock	**1.8**	0.4
Dividends	**(27.8)**	(27.0)
Cash flow used in financing activities	**(2,405.5)**	(206.7)
Effect of foreign exchange rate changes on cash and cash equivalents	**17.1**	12.3
Increase (decrease) in cash and cash equivalents	**(97.3)**	3.6
Cash and cash equivalents, beginning of year	**135.8**	132.2
Cash and cash equivalents, end of year	**38.5**	135.8

The segmented information and the accompanying notes are an integral part of these consolidated financial statements. See supplementary cash flow information in Note 25.

THE JEAN COUTU GROUP (PJC) INC.

Consolidated segmented information

For the fiscal years ended June 4, 2007 and May 27, 2006
(in millions of US dollars)

The Company has two reportable segments: franchising and retail sales. Within the franchising segment, the Company carries on the franchising activity of the "PJC Jean Coutu" banner, operates two distribution centers and coordinates several other services for the benefit of its franchisees. During the year 2006 and 2007, the Company also operated in the retail sales segment through outlets selling pharmaceutical and other products under the "Brooks" and "Eckerd" banners. On June 4, 2007, the Company sold its interest in the "Brooks" and "Eckerd" outlets for cash and an equity interest in Rite Aid Corporation, which now operates a network of approximately 5,100 corporate drugstores engaged in retail pharmacy in the United States (Note 4).

The Company analyzes the performance of its operating segments based on their operating income before amortization, which is not a measure of performance under Canadian generally accepted accounting principles ("GAAP"); however, management uses this performance measure for assessing the operating performance of its reportable segments.

Segmented information is summarized as follows:

	2007	2006
	$	$
	(Note 1b)	(Note 1b)
Revenues [(1)]		
Franchising	**1,889.8**	1,635.4
Retail sales	**9,785.8**	9,507.7
	11,675.6	11,143.1
Operating income before amortization		
Franchising	**191.0**	165.0
Retail sales	**287.7**	331.6
	478.7	496.6
Amortization		
Franchising [(2)]	**16.8**	15.9
Retail sales	**235.2**	215.8
Reversal of amortization of the retail sales segment in consolidation [(3)]	**(181.0)**	-
	71.0	231.7
Operating income		
Franchising	**174.2**	149.1
Retail sales	**52.5**	115.8
Reversal of amortization of the retail sales segment in consolidation [(3)]	**181.0**	-
	407.7	264.9

(1) Revenues include sales and other revenues.

(2) Including amortization of incentives paid to franchisees.

(3) Since August 23, 2006, the Company no longer amortizes the assets related to its US operations since they were classified as assets held for sale.

THE JEAN COUTU GROUP (PJC) INC.

Consolidated segmented information

For the fiscal years ended June 4, 2007 and May 27, 2006
(in millions of US dollars)

	2007	2006
	$	$
	(Note 1b)	(Note 1b)
Acquisition of capital assets and intangible assets		
Franchising	**33.6**	43.2
Retail sales	**104.2**	135.1
	137.8	178.3

	As at June 4, 2007	As at May 27, 2006
	$	$
Capital assets, intangible assets and goodwill		
Franchising	**320.8**	286.9
Retail sales	**-**	2,665.1
	320.8	2,952.0
Total assets		
Franchising	**733.5**	729.5
Retail sales [1]	**1,474.7**	4,861.5
	2,208.2	5,591.0

The Company's revenues, capital assets, intangible assets and goodwill as well as total assets for the geographic areas of Canada and the United States correspond respectively to the franchising and retail sales segments.

[1] As at June 4, 2007, total assets represent the investment in Rite Aid Corporation.

1. Description of business and significant accounting policies

a) Description of business

The Company is incorporated under the *Companies Act of Québec*. It has two reportable segments.

In Canada, the Company operates a franchisee network. Franchising activities include operating two distribution centers and providing various services to 328 franchised stores as of June 4, 2007 (May 27, 2006 - 327). In fiscal 2007, there were 4 new store openings (2006 - 11) and 3 closures of franchised stores (2006 - 5). The franchised store network retails pharmaceutical and parapharmaceutical products. The Company also manages all properties that house franchisee outlets.

In the United States, the Company operated a network of corporate drugstores in retail pharmaceutical and parapharmaceutical products, located in 18 states of the Northeast, mid-Atlantic and Southeast. As at May 27, 2006, the Company operated 1,858 corporate drugstores. During fiscal 2007, there were 11 new store openings (2006 - 21), 15 closures (2006 - 85) and 1,854 were sold on June 4, 2007. Pursuant to the sale of the retail sales segment on June 4, 2007, the Company no longer directly operates corporate drugstores in the United States, but rather holds an equity interest in Rite Aid Corporation (Note 4).

b) Financial statements presentation

The consolidated financial statements are prepared in accordance with Canadian GAAP.

The Company's reporting calendar is based on the US National Retail Federation 4-5-4 merchandising calendar. Accordingly, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The fiscal year ended June 4, 2007, exceptionally contains 53 weeks and 2 days, to reflect the sale of US Operations described in Note 4, while the fiscal year ended May 27, 2006 contained 52 weeks.

For the fiscal year commencing on June 5, 2007, the Company changed its fiscal year-end date to become the Saturday closest to February 29 or March 1 in order to coincide with Rite Aid Corporation's fiscal year end.

c) Basis of consolidation

The consolidated financial statements include the accounts of the parent company and all its subsidiaries. All intercompany transactions and balances have been eliminated on consolidation.

1. Description of business and significant accounting policies *(continued)*

d) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make certain estimates and assumptions. These may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. They may also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant areas requiring the use of management estimates relate to: inventory valuation, valuation of long-term assets, gain on sale of the retail sales segment, and reserves and allowances, specifically those related to store closures, workers' compensation and general liability, and income taxes.

e) Revenue recognition

Sales to franchisees are recognized when merchandise is shipped. Retail sales are recognized at the time of the sale to the consumer. The Company recognizes its sales net of returns. Volume rebates and cash discounts granted to customers are accrued at the time of sale and recorded as a reduction of sales. The Company reports all direct merchandise shipment transactions on a net basis when acting as an agent between suppliers and franchisees.

Royalties are calculated based on a percentage of franchisees’ retail sales and are recorded as income as they are earned. The percentage is established in the franchisees' agreements.

Services to franchisees and rental income are recognized when services are rendered. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent income on a straight-line basis over the term of the lease.

Revenues are recognized when reasonable assurance exists regarding collectibility.

f) Rate-regulated activities

Certain of the Company’s franchising activities are rate-regulated. In the provinces of Quebec and Ontario (Canada), the provincial governments, through its various bodies, draw a list of medications and determine its selling price. The Company cannot sell the medications at a higher price then what is determined.

1. Description of business and significant accounting policies *(continued)*

g) Vendor allowance

Cash considerations received from vendors represent a reduction of the price of the vendors' products or services and are accounted for as a reduction of cost of goods sold and related inventory when recognized in the Company's consolidated statement of earnings and balance sheet. Certain exceptions apply when the cash considerations received are either a reimbursement of incremental costs incurred by the Company to sell the vendors' products, or is a payment for assets or services delivered to the vendors.

h) Foreign currency translation

The non-consolidated financial statements of the parent company and its subsidiaries are prepared based on their respective functional currencies, which is the US dollar for US operations and the Canadian dollar for Canadian operations and corporate activities.

The financial statements of entities whose functional currency is not the US dollar are translated into the reporting currency according to the current rate method. Under this method, statement of earnings and statement of cash flow items of each year are translated to the reporting currency at the average monthly exchange rates and asset and liability items are translated at the exchange rate in effect at the balance sheet date. Translation adjustments resulting from exchange rate fluctuations are recorded in foreign currency translation adjustments in shareholders' equity.

Transactions denominated in currencies other than an entity's functional currency are translated according to the temporal method. Under this method, monetary assets and liabilities in foreign currencies are translated at the exchange rate in effect at the balance sheet date, non-monetary assets and liabilities in foreign currencies at their historical rates and statement of earnings items in foreign currencies at the average monthly exchange rates. All exchange gains and losses are current in nature and are included in the consolidated statements of earnings, unless subject to hedge accounting.

i) Earnings per share

Basic and diluted earnings per share have been determined by dividing the consolidated net earnings available to shareholders for the year by the basic and diluted weighted average number of shares outstanding, respectively.

The diluted weighted average number of shares outstanding is calculated as if all dilutive options had been exercised at the later of the beginning of the reporting period or date of grant, using the treasury stock method.

1. Description of business and significant accounting policies *(continued)*

j) Cash and cash equivalents

Cash and cash equivalents are defined as cash and highly liquid investments that have maturities of less than three months at the date of acquisition.

k) Inventories

Inventories are valued at the lower of cost and net realizable value, the cost being determined using either the first in, first out method, the average unit cost or retail selling price less a normal gross profit method.

l) Investments

Investments in companies subject to significant influence are accounted for using the equity method. Under this method, the investment is initially recorded at cost, and adjustments are made to include the Company's share of the investment's net earnings or loss, which are included in net earnings. Other investments are accounted for using the cost method.

Periodically, management analyzes each investment and whenever an adverse event or changes in circumstances indicate that the carrying value of the investments may not be recoverable, the Company considers whether the fair value of the investments have declined below their carrying value and if the decline is considered to be other than temporary, the investments are written down to fair value and a loss is recognized in the consolidated statement of earnings.

1. Description of business and significant accounting policies *(continued)*

m) Capital assets

Capital assets are accounted for at cost.

Amortization of buildings held for leasing was based on their estimated useful lives using the compound interest method until June 1, 2004. Since that date, the Company has used the straight-line method. Construction in progress is not amortized until the asset is ready for its intended use. Amortization of other capital assets is based on their estimated useful lives using the straight-line and the diminishing balance methods at the following rates and terms:

	Methods	Rates and terms
Buildings	Diminishing balance and straight-line	5% and 12 to 31 years
Buildings held for leasing	Straight-line	40 years
Leasehold improvements	Straight-line	Term of the lease or useful life, whichever is shorter
Equipment	Straight-line	3 to 7 years

n) Intangible assets

Intangible assets with a finite service life are accounted for at cost and amortized on a straight-line basis. They consist mainly of customer prescription files, non-compete agreements and favorable leases. Prescription files are amortized over a five to ten-year period. Non-compete agreements are amortized over the terms of the agreements. Favorable leases represent the value attributed to leases resulting from a business acquisition. The value of favorable leases is amortized over the remaining life of the leases.

Intangible assets with an indefinite service life, representing trade name, are accounted for at cost and are not amortized. Trade name is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

1. Description of business and significant accounting policies *(continued)*

o) Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired and is not amortized. Goodwill is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. As at June 4, 2007 and May 27, 2006, the Company has performed impairment tests and no write-downs were necessary.

p) Other long-term assets

Other long-term assets are mainly the incentives paid to franchisees and deferred costs. Incentives paid to franchisees are amortized over a ten-year period and amortization is applied against royalties, included in other revenues. Deferred costs are accounted for at cost and were mainly financing fees. Amortization was calculated using the straight-line method over the term of the long-term loan and recorded in financing expenses.

q) Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows expected to be generated from utilizing these assets to their carrying amounts. If the cash flows are not sufficient to recover the carrying amount of the assets, the impairment has occured, and the long-lived assets are written down to their respective fair values.

r) Future income taxes

The Company uses the tax asset and liability method to account for income taxes. Under this method, future tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted income tax rates and income tax laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. Future tax assets are only recognized to the extent that, in the opinion of management, assets will more likely than not be realized.

1. Description of business and significant accounting policies *(continued)*

s) Other long-term liabilities

Except for the future income taxes, other long-term liabilities consisted mainly of the deferred revenues, deferred lease obligations, unfavorable leases, workers' compensation and general liability and liabilities for store closures.

Deferred revenues: The Company receives allowances from its vendors as consideration for exclusivity agreements. The revenues related to these agreements are deferred when received and recognized as purchases are made, as stipulated by the agreement. Deferred revenues also include a deferred gain related to sale-leaseback, as described in Note 25.

Deferred lease obligations: The Company conducts a part of its operations in leased premises and recognizes minimum rent starting when possession of the property is taken from the landlord, which normally includes a pre-opening period. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis over the term of the lease and, consequently, records the difference between the recognized rental expense and the amounts payable under the lease as deferred lease obligations. The Company also receives tenant allowances which are amortized on a straight-line basis over the term of the lease or useful life of the asset, whichever is shorter.

Lease payments that depend on factors that are not measurable at the inception of the lease, such as future sales volume, are contingent rentals in their entirety and are excluded from minimum lease payments and included in the determination of total rental expense when the expense has been incurred and the amount is reasonably estimable.

Unfavorable leases: The value attributed to unfavorable leases resulting from a business acquisition is amortized on a straight-line basis over the remaining life of the leases.

Workers' compensation and general liability: Workers' compensation and general liability reserves are based on actuarially determined estimates of reported and incurred but not reported claims resulting from historical experience and current data.

Liabilities for store closures: Store closure reserves are established at the present value of lease obligations, net of estimated sublease rental income and other exit costs.

1. Description of business and significant accounting policies *(continued)*

t) Stock-based compensation plan

The Company has a fixed stock option plan, which is described in Note 19. Since June 1, 2003, stock-based compensation cost is recorded under the fair value method. According to that method, awards of stock options are measured on their date of grant using the fair value based method, and are expensed and credited to contributed surplus over their vesting period. These credits are reclassified to capital stock when the related stock options are exercised.

u) Defined benefit pension plans

The Company maintains defined benefit pension plans for some of its senior officers, which include a registered pension plan as well as non-registered supplemental pension plans.

The registered pension plan is funded as required by the applicable laws and the supplemental plan is partly funded through retirement compensation arrangements (RCA). The amount of contributions required for funding purposes is determined by actuarial valuations performed triennially. The most recent actuarial valuation was performed as at December 31, 2005 and the effective date of the next actuarial valuation is December 31, 2008.

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plans' investment performance, salary escalation and retirement age of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The fair value is market value.

Past service costs are amortized on a straight-line basis over the average remaining service period of active employees, at the date of amendment.

The excess of the net actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of active employees covered by the pension plans was 9.3 years as at June 4, 2007 (9.6 years as at May 27, 2006).

v) Defined contribution pension plans

For defined contribution plans, the pension expense is equal to the contributions of the Company.

1. Description of business and significant accounting policies *(continued)*

w) Derivative financial instruments

The Company uses, when required, various derivative financial instruments to manage interest rate risk and foreign exchange rate risk. The Company does not use derivative financial instruments for speculative or trading purposes.

The Company formally documents all relationships between derivatives and the items it hedges, and its risk management objective and strategy for using various hedges. Derivatives that are economic hedges, but do not qualify for hedge accounting, are recognized at fair value with the changes in fair value recorded in earnings.

The Company used interest rate swap agreements to manage the fixed and floating interest rate mix of its total debt portfolio. These agreements involved exchanging interest payments without exchanging the notional principal amount that the payments are based on. The Company records the exchange of payments as an adjustment of interest expense on the hedged debt.

2. Accounting policies

Changes in accounting policies

2007

There were no changes in accounting policies that had an impact on the Company's consolidated financial statements in 2007.

2006

a) Financial Instruments - Disclosure and Presentation

In November 2003, the Accounting Standards Board approved a revision to Canadian Institute of Chartered Accountants (CICA) Handbook Section 3860, "Financial Instruments – Disclosure and Presentation." These revisions change the accounting for certain financial instruments that have liability and equity characteristics. It requires instruments that meet specific criteria to be classified as liabilities on the balance sheet. Some of these financial instruments were previously classified as equity. These revisions are effective for fiscal years beginning on or after November 1, 2004. Because the Company does not have any instruments with these characteristics, adopting these revisions on June 1, 2005 had no impact on its consolidated financial statements.

2. Accounting policies (continued)

b) Non-monetary transactions

In June 2005, the CICA revised the existing Section 3830, "Non-monetary transactions", and replaced it by Section 3831, "Non-monetary transactions". The revised standard has the goal of replacing the criteria based on the culmination of the earnings process with one based on commercial substance for the measurement of a non-monetary transactions at fair value. The revised standard is applied to non-monetary transactions initiated in periods beginning after January 1, 2006. The adoption of this Section had no material impact on the Company's consolidated financial statements.

c) Consideration given by a vendor to a customer

In September 2005, the Emerging Issues Committee (EIC) of the CICA issued Abstract 156 (EIC-156), "Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)". This EIC-156, which is harmonized with the equivalent United States Abstract of the Emerging Issues Task Force (EITF) 01-9 "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)", provides guidance on the accounting treatment and classification of sales incentives or other consideration given to a customer and indicates when these items should be recorded as a reduction of revenue or as an expense.

EIC-156 should be applied retrospectively, with restatement of prior periods, to all interim and annual financial statements for fiscal years beginning on or after January 1, 2006. The adoption of EIC-156 had no material impact on the Company's consolidated financial statements.

Recent pronouncements

d) Financial Instruments - Recognition and Measurement

In April 2005, the CICA issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement", effective for fiscal years beginning on or after October 1, 2006. It describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This Section requires that all financial assets and financial liabilities be measured at fair value on initial recognition, with certain exceptions such as loans and investments that are classified as held-to-maturity; all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value and all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

This Section will be effective for the Company as of June 5, 2007 and will be adopted retrospectively without restatement. The impact of the adoption of this new Section on the Company's consolidated financial statements is not expected to be material.

2. Accounting policies *(continued)*

e) Comprehensive Income

In April 2005, the CICA issued Handbook Section 1530, "Comprehensive Income." It describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net earnings, such as changes in currency translation adjustments relating to self-sustaining foreign operations and unrealized gains or losses on available-for-sale investments. In April 2005, the CICA also made changes to Handbook Section 3250, "Surplus," and reissued it as Section 3251, "Equity." The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of Section 1530.

These Sections are effective for fiscal years beginning on or after October 1, 2006, therefore will be effective for the Company as of June 5, 2007, and will be adopted retrospectively without restatement. These Sections will require the Company to start reporting the following items in its consolidated financial statements: comprehensive income and its components and accumulated other comprehensive income and its components.

f) Hedges

In April 2005, the CICA issued Handbook Section 3865, "Hedges". This Section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used. Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between: changes in the fair value of a hedged item and a hedging item or changes in the cash flows attributable to a hedged item and a hedging item or also, changes resulting from a risk exposure relating to a hedged item and a hedging item. Hedge accounting makes sure that gains, losses, revenues and expenses from the derivative and the item it hedges are recorded in the statement of earnings in the same period.

This Section will be effective for the Company as of June 5, 2007 and will be adopted retrospectively without restatement. The impact of the adoption of this new Section on the Company's consolidated financial statements is not expected to be material.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

3. Other revenues

	2007	2006
	$	$
	(Note 1b)	(Note 1b)
Royalties [1]	**98.7**	86.2
Rent	**59.4**	57.7
Sundry	**47.8**	45.1
	205.9	189.0

[1] The amortization of incentives paid to franchisees of $3,902,000 is applied against royalties (2006 - $3,853,000).

4. Disposal of the retail sales segment

On June 4, 2007, the Company sold its network in the United States comprising 1,854 corporate establishments that retail pharmaceutical and parapharmaceutical products (the “US Operations”) to Rite Aid Corporation (“Rite Aid”) in exchange for a cash consideration of $2.300 billion, subject to a working capital adjustment currently estimated at $14.4 million in favor of the Company, and 250 million shares of Rite Aid common stock, giving it approximately 32% common equity interest and 30% voting power in the expanded company.

The US Operations are not presented as discontinued operations considering the continuing involvement of the Company in the expanded Rite Aid, which includes the US Operations after the disposal transaction. The financial position and the results of operations of the US Operations are consolidated in the consolidated balance sheet of the Company as at May 27, 2006 and in the consolidated statements of earnings and cash flows for the fiscal years ended May 27, 2006 and June 4, 2007. The US Operations represented the totality of the retail sales segment of the Company.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

4. Disposal of the retail sales segment *(continued)*

Gain on sale of the retail sales segment

As a result of the simultaneous sale and retention of interest in its net asset through its acquired interest in Rite Aid, the Company recognized, on June 4, 2007, a gain of $76.6 million net of income taxes for this transaction as described below:

	2007
	$
Selling price of the retail sales segment	**3,951.8**
Less:	
Book value of net asset sold	**3,442.0**
Unrecognized portion of the gain on sale representing the economic interest retained	**162.8**
Recognition of the foreign currency translation adjustments related to the interest sold in the US Operations	**187.2**
Transaction costs	**20.5**
Gain on sale of the retail sales segment before incomes taxes	**139.3**
Income taxes	**62.7**
Net gain on sale of the retail sales segment	**76.6**

The gain is based on the closing price for Rite Aid shares of $6.55 as at June 4, 2007 and an exchange rate expressed as US dollars per Canadian dollar of 0.9432.

Income taxes include an amount of $58,744,000 related to the unwinding of the financing structure. This charge was reduced by the recognition of previously unrecorded benefits in the amount of $18,687,000 on capital losses carried forward. The $58,744,000 charge does not reflect amendments in draft legislation. In the event these measures become substantively enacted, it is expected that the charge of $58,744,000 will be reversed.

Restructuring charges

During the year, the Company adopted a transition pay program associated with the disposal of the retail sales segment. The charges related to this program amount to $54.3 million for the fiscal year ended June 4, 2007 of which $8.9 million was paid during the fiscal year. The unpaid portion is included in the net asset sold.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

4. Disposal of the retail sales segment *(continued)*

Operating summary of the US Operations for the fiscal years ended June 4, 2007 and May 27, 2006:

	2007	2006
	$	$
	(Note 1b)	(Note 1b)
Sales	**9,772.5**	9,495.9
Other revenues	**13.3**	11.8
Operating expenses		
Cost of goods sold	**7,289.5**	7,077.2
General and operating expenses	**2,154.3**	2,098.9
Restructuring charges	**54.3**	-
Amortization	**54.2**	215.8
Operating income	**233.5**	115.8

Net asset sold on June 4, 2007 and comparative figures as of May 27, 2006:

	Sold on June 4, 2007	Comparative figures as at May 27, 2006
	$	$
Current assets		
Cash and cash equivalents	**25.7**	110.7
Accounts receivable	**411.8**	415.9
Income taxes receivable	**1.1**	8.8
Inventories	**1,591.9**	1,618.3
Prepaid expenses and other	**63.2**	38.4
Current assets	**2,093.7**	2,192.1

(Tabular amounts are in millions of US dollars, unless otherwise noted)

4. Disposal of the retail sales segment *(continued)*

Net asset sold on June 4, 2007 and comparative figures as of May 27, 2006:

	Sold on June 4, 2007	Comparative figures as at May 27, 2006
	$	$
Long-term assets		
Capital assets	**1,177.0**	1,116.9
Intangible assets	**682.6**	689.4
Goodwill	**858.7**	858.7
Other long-term assets	**5.9**	4.4
Long-term assets	**2,724.2**	2,669.4
Current liabilities		
Accounts payable and accrued liabilities	**865.6**	884.6
Future income taxes	**107.9**	147.0
Current portion of long-term debt	**10.9**	9.0
Current liabilities	**984.4**	1,040.6
Long-term liabilities		
Long-term debt	**11.4**	5.3
Deferred revenues	**7.1**	9.8
Deferred lease obligations	**31.9**	24.7
Unfavorable leases	**26.3**	29.5
Workers' compensation and general liability	**66.2**	64.5
Liabilities for store closures	**59.8**	72.4
Future income taxes	**180.4**	171.4
Other	**8.4**	8.7
Long-term liabilities	**391.5**	386.3
Net asset sold	**3,442.0**	3,434.6

(Tabular amounts are in millions of US dollars, unless otherwise noted)

5. Amortization

	2007	2006
	$	$
	(Note 1b)	(Note 1b)
Capital assets	**53.7**	173.0
Intangible assets	**13.3**	54.8
Deferred costs	**0.1**	0.1
	67.1	227.9

Since August 23, 2006, the Company ceased amortizing the assets related to its US Operations since they were classified as assets held for sale.

6. Financing expenses

	2007	2006
	$	$
	(Note 1b)	(Note 1b)
Interest on long-term debt	**197.2**	190.0
Amortization of deferred financing fees	**13.2**	12.4
Unrealized foreign exchange losses (gains) on monetary items	**(0.2)**	10.9
Realized foreign exchange losses (gains) on monetary items	**11.9**	(9.7)
Realized gains on derivative financial instruments	**(6.0)**	-
Other financing expenses (income), net	**(0.5)**	1.5
	215.6	205.1

The Company had interest rate swaps in order to fix the interest rate on a portion of its variable interest debt. On May 29, 2007, the Company terminated these contracts and the gains related to these derivatives were recognized to earnings.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

7. Income taxes

The income taxes (recovery) are as follows:

	2007	2006
	$	$
	(Note 1b)	(Note 1b)
Current income taxes (recovery)	**56.5**	(14.1)
Future income taxes (recovery)	**(34.2)**	(29.9)
	22.3	(44.0)

The Company's effective tax rate differs from the combined statutory rate. The difference is attributable to the following items:

	2007	2006
	$	$
Canadian operations at statutory tax rates	**(15.8)**	(12.3)
American operations at statutory tax rates	**86.7**	45.3
Tax at statutory rates	**70.9**	33.0
Tax increase (decrease) resulting from:		
Benefit arising from financing structures in relation with investments in subsidiaries	**(76.7)**	(79.7)
Cost of dismantling the financing structures as part of the sale of the retail sales segment	**58.7**	-
Benefit of capital losses carryforwards not previously recorded	**(18.7)**	-
Gain on sale of the retail sales segment subject to capital gains rate	**(18.8)**	-
Other	**6.9**	2.7
	22.3	(44.0)

(Tabular amounts are in millions of US dollars, unless otherwise noted)

7. Income taxes *(continued)*

Future income tax assets and liabilities are as follows:

	As at June 4, 2007	As at May 27, 2006
	$	$
Future income tax assets:		
Accounts receivable	**-**	29.4
Intangible assets, goodwill and incentives paid to franchisees	**5.3**	5.4
Current liabilities	**0.7**	72.7
Other long-term liabilities	**6.5**	90.4
Capital stock issuance expenses	**3.1**	4.6
Net operating losses carried forward	**0.2**	27.1
Penalty on senior notes reimbursements	**27.2**	-
Financing fees	**9.3**	-
Interest carried forward	**-**	78.2
	52.3	307.8
Future income tax liabilities:		
Inventories	**-**	234.6
Capital assets	**6.6**	242.7
Intangible assets and goodwill	**-**	125.2
Financing fees	**-**	5.9
Investment in Rite Aid Corporation	**23.5**	-
Other	**1.0**	12.8
	31.1	621.2
Future income tax assets (liabilities), net	**21.2**	(313.4)
Allocated as follows:		
Long-term future income tax asset	**21.2**	5.9
Short-term future income tax liability	**-**	(147.8)
Long-term future income tax liability	**-**	(171.5)
	21.2	(313.4)

7. Income taxes *(continued)*

At May 27, 2006, the Company had U.S. Federal net operating losses carryforwards of approximately $6,500,000, the majority of which will expire in 2026 and U.S. State net operating losses of approximately $552,700,000, the majority of which will expire between fiscal 2020 and 2026. No valuation allowance was recorded for these losses. At June 4, 2007, given the sale of the retail sales segment, the Company had no material operating losses carryforwards.

8. Earnings per share

The reconciliation of the number of shares used to calculate the diluted earnings per share is established as follows:

	2007	2006
	(in millions)	*(in millions)*
Weighted average number of shares used to compute basic earnings per share	**261.7**	261.7
Effect of dilutive stock options	**0.2**	0.3
Weighted average number of shares used to compute diluted earnings per share	**261.9**	262.0

As at June 4, 2007, 1,472,000 antidilutive stock options have been excluded from the computation of diluted earnings per share (May 27, 2006 - 1,749,000).

9. Investments

	As at June 4, 2007	As at May 27, 2006
	$	$
Investment in companies subject to significant influence - Rite Aid Corporation	**1,474.7**	-
Investment in companies subject to significant influence - Other	**7.5**	2.4
Loans, advances and long-term operating receivables from franchisees, at varying fixed interest rates, some of which carry repayment terms until 2026 and are renewable (net of a provision for losses of $3,209,000 as at June 4, 2007; May 27, 2006 - $2,759,000)	**31.7**	28.3
	1,513.9	30.7
Current portion (included in accounts receivable)	**4.3**	5.3
	1,509.6	25.4

(Tabular amounts are in millions of US dollars, unless otherwise noted)

9. Investments *(continued)*

Investment in companies subject to significant influence - Rite Aid Corporation

The Company holds a significant interest in Rite Aid Corporation ("Rite Aid"), one of the United States' leading drugstore chains, with approximately 5,100 drugstores.

The equity interest acquired in Rite Aid represents an investment subject to significant influence, which is accounted for using the equity method from the date of the transaction, June 4, 2007. The investment is initially recorded at cost, and adjustments are made to include the Company's share of Rite Aid's net earnings or loss. The Company's share of Rite Aid's net earnings or loss is adjusted to reflect the amortization of the fair value adjustments related to the fair value of the Company's share of the net identifiable asset of Rite Aid acquired, and to eliminate the effect of the purchase price allocation recorded by Rite Aid for the Company's retained interest in the US Operations.

The total cost is allocated to the Company's share of net identifiable asset acquired on the basis of their fair values, based on independent valuations, using the purchase method of accounting. The purchase price allocations are preliminary and are subject to changes once the final valuations of the net identifiable asset acquired and the working capital and other purchase price adjustments have been made.

The preliminary allocation of the excess of the cost of the investment in Rite Aid over the underlying net book value of assets acquired amounted to $578.5 million as at June 4, 2007, and represents the adjustment to the first in, first out method on inventories of $ 178.0 million, the intangible assets (consisting mainly of customer prescription files and trade name) of $414.5 million, future income taxes liabilities of $237.0 million and incremental goodwill of $223.0 million.

Because the transaction with Rite Aid occurred on the last day of the fiscal year, no adjustment has been made for the equity in earnings of Rite Aid for June 4, 2007 operations.

The investment in Rite Aid is detailed as follows:

	As at June 4, 2007
	$
250 million shares of Rite Aid common stock received following the sale of the US Operations	**1,637.5**
Unrecognized portion of the gain on sale of the US Operations representing the economic interest retained	**(162.8)**
Book value of the investment in Rite Aid	**1,474.7**

(Tabular amounts are in millions of US dollars, unless otherwise noted)

10. Capital assets

	As at June 4, 2007		
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Land	**3.5**	**-**	**3.5**
Land held for leasing	**68.9**	**-**	**68.9**
Buildings	**49.0**	**15.7**	**33.3**
Buildings held for leasing	**192.3**	**28.6**	**163.7**
Leasehold improvements	**10.7**	**5.5**	**5.2**
Equipment	**50.4**	**34.1**	**16.3**
Equipment under capital leases	**1.6**	**1.4**	**0.2**
Construction in progress	**10.8**	**-**	**10.8**
	387.2	**85.3**	**301.9**

	As at May 27, 2006		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	134.2	-	134.2
Land held for leasing	60.3	-	60.3
Buildings	349.9	59.5	290.4
Buildings held for leasing	169.9	22.4	147.5
Leasehold improvements	397.7	134.0	263.7
Equipment	666.8	251.5	415.3
Equipment under capital leases	49.1	19.6	29.5
Construction in progress	44.9	-	44.9
	1,872.8	487.0	1,385.8

(Tabular amounts are in millions of US dollars, unless otherwise noted)

11. Intangible assets

During the fiscal year ended June 4, 2007, the Company acquired intangible assets for an amount of $2,070,000 (2006 - $10,859,000) and disposed of all its intangible assets as at June 4, 2007 as part of the transaction described in Note 4.

Intangible assets are detailed as follows:

	As at May 27, 2006		
	Cost	Accumulated amortization	Net book value
	$	$	$
Prescription files	337.8	87.9	249.9
Non-compete agreements	6.6	4.6	2.0
Favorable leases	113.2	28.7	84.5
Trade name (1)	353.0	-	353.0
	810.6	121.2	689.4

(1) Non-amortized indefinite service life intangible asset.

12. Goodwill

The changes in the book value of goodwill are as follows:

	As at June 4, 2007		
	Franchising	**Retail sales**	**Total**
	$	**$**	**$**
Balance, beginning of year	**18.1**	**858.7**	**876.8**
Disposal of the retail sales segment (Note 4)	**-**	**(858.7)**	**(858.7)**
Foreign currency translation adjustments	**0.8**	**-**	**0.8**
Balance, end of year	**18.9**	**-**	**18.9**

(Tabular amounts are in millions of US dollars, unless otherwise noted)

12. Goodwill *(continued)*

	As at May 27, 2006		
	Franchising	Retail sales	Total
	$	$	$
Balance, beginning of year	17.2	849.3	866.5
Acquisition	-	9.4	9.4
Transfer to assets held for sale	(1.4)	-	(1.4)
Foreign currency translation adjustments	2.3	-	2.3
Balance, end of year	18.1	858.7	876.8

13. Other long-term assets

	As at June 4, 2007	As at May 27, 2006
	$	$
Incentives paid to franchisees, net	**17.7**	18.7
Deferred costs, net [1]	**0.6**	75.5
Future income taxes (Note 7)	**21.2**	5.9
Other	**8.1**	13.5
	47.6	113.6

[1] Deferred costs were mainly financing fees that were written off following the debt repayment on June 4, 2007.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

14. Long-term debt

	As at June 4, 2007	As at May 27, 2006
	$	$
Term loan facility repaid on June 4, 2007, was secured first rank, bearing interest at LIBOR rate plus a variable margin (totalling 7.6875% as at May 27, 2006).	**-**	179.7
Term loan facility repaid on June 4, 2007, was secured first rank, bearing interest at LIBOR rate plus a variable margin (totalling 7.625% as at May 27, 2006).	**-**	994.6
Unsecured senior notes, bearing interest at 7.625% and maturing on August 1, 2012, redeemable after August 1, 2008.	**-**	350.0
Unsecured senior subordinated notes, bearing interest at 8.50% and maturing on August 1, 2014, redeemable after August 1, 2009.	**2.8**	850.0
Computer equipment and software capital leases bearing interest at 4.55% (4.55% to 10.25% as at May 27, 2006).	**0.2**	14.7
Loans, secured by real estate having a net book value of $4,954,000 (2006 - $3,169,000), bearing interest at rates varying from 5.5% to 7.7%, maturing at different dates up to 2015.	**4.6**	1.8
	7.6	2,390.8
Current portion	**0.6**	78.8
	7.0	2,312.0

14. Long-term debt *(continued)*

Credit agreements

On July 30, 2004, the Company had entered into a credit agreement which included credit facilities and two term loans. An amount of $350,000,000 was available as a revolver loan or as letters of credit for an amount not to exceed $180,000,000. Revolver borrowings under the credit agreement bore interest at the Canadian or US prime rate plus a variable margin or at LIBOR rate plus a variable margin (varying from 0.50% to 2.50%). The credit agreement was secured by a first ranking security interest in substantially all of the Company's assets and a first ranking pledge of the capital stock of the Company's subsidiaries. As at May 27, 2006, available credit facilities were unused, with the exception of outstanding letters of credit in the amount of $70,674,000. That credit agreement was fully repaid and cancelled on June 4, 2007 as part of the sale of the retail sales segment. In addition, the Company transferred its obligations on $65,274,000 oustanding letters of credit associated with the retail sales segment to Rite Aid.

Effective June 4, 2007, the Company is bound by a new unsecured revolving credit facilitity maturing on June 4, 2012, in the amount of $C500,000,000. This credit facility has an initial term of five years that could be extended each year to its initial five year term. Borrowings under the credit facility bear interest at the Canadian prime rate plus a variable margin (totalling 6.00% as at June 4, 2007) or at banker acceptance rate plus a variable margin (totalling 4.38% as at June 4, 2007). Margins depend on the achievement of certain financial ratios. As at June 4, 2007, available credit facilities were unused, with the exception of outstanding letters of credit in the amount of $C310,000.

Under the terms of these credit agreements, the Company must satisfy certain restrictive covenants as to minimum financial ratios and certains conditions. As at June 4, 2007 and May 27, 2006, the Company was in compliance with these covenants and conditions.

Note repayments

As a result of the sale of the retail sales segment, the Company has repaid substantially all of the $350,000,000 unsecured senior notes (approximately 99.9% of these notes have been tendered) and the $850,000,000 unsecured senior subordinated notes (approximately 99.7% of these notes have been tendered).

Loss on early debt retirement

The charges recorded when the term loans and the notes were repaid, amounted to $168.3 million (or $117.5 million net of income taxes), and consist of debt retirement costs of $104.2 million and write-off of deferred financing fees of $64.1 million.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

14. Long-term debt *(continued)*

Minimum repayments

Minimum repayments to be made during the following five years are as follows:

	Long-term debt	Capital leases
	Principal	Principal
	$	$
2008	**0.4**	**0.2**
2009	**0.4**	**-**
2010	**5.3**	**-**
2011	**0.2**	**-**
2012	**0.2**	**-**

15. Other long-term liabilities

	As at June 4, 2007	As at May 27, 2006
	$	$
Deferred revenues	**22.7**	31.3
Deferred lease obligations	**5.0**	29.0
Unfavorable leases	**-**	29.6
Workers' compensation and general liability	**-**	64.5
Liabilities for store closures	**-**	72.4
Future income taxes (Note 7)	**-**	171.5
Other	**-**	8.8
	27.7	407.1

16. Liabilities for store closures

Liabilities for store closures, related to the retail sales segment, consisted of the present value of lease obligations, net of estimated sublease rental income and other exit costs. As at May 27, 2006, liabilities for store closures represented $94,288,000, including the short and long-term portions. For the fiscal year ended June 4, 2007, payments of $21,729,000 ($32,426,000 in 2006) were applied against the provision. Also, for the fiscal year ended June 4, 2007, a charge of $3,322,000 ($3,568,000 in 2006) was recorded in the results to reflect other store closures. Following the sale of the retail sales segment, $75,881,000 of liabilities for store closures were transferred to Rite Aid (Note 4).

17. Capital stock

Authorized, unlimited number:

Class A subordinate voting shares, participating, one vote per share, exchangeable, at the option of the holder, for the same number of Class B shares in the event of a take-over bid being made solely in respect to Class B shares, without par value, dividend declared in Canadian dollars.

Class B shares, participating, ten votes per share, exchangeable for Class A subordinate voting shares on the basis of one Class A subordinate voting share for one Class B share, without par value, dividend declared in Canadian dollars.

Class C shares, to be issued in one or more series subject to rights, privileges, conditions and restrictions to be determined, non-participating, non-voting, without par value.

17. Capital stock *(continued)*

Changes that occurred in capital stock are presented as follows:

	2007		2006	
	Shares *(in millions)*	**$**	Shares *(in millions)*	$
Class A subordinate voting shares				
Outstanding shares, beginning of year	**142.3**	**577.9**	142.2	577.5
Class B shares converted into Class A subordinate voting shares	**2.0**	**-**	-	-
Options exercised	**0.2**	**1.8**	0.1	0.4
Outstanding shares, end of year	**144.5**	**579.7**	142.3	577.9
Class B shares				
Outstanding shares, beginning of year	**119.4**	**-**	119.4	-
Class B shares converted into Class A subordinate voting shares	**(2.0)**	**-**	-	-
Outstanding shares, end of year	**117.4**	**-**	119.4	-
Total oustanding shares, end of year	**261.9**	**579.7**	261.7	577.9

Normal course issuer bid

On June 29, 2007, the Company announced its intention to purchase for cancellation up to 13,672,800 of its outstanding Class A subordinate voting shares, representing approximately 10% of the current public float of such shares, over a 12-month period ending no later than July 3, 2008. Purchases will be made from time to time through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

18. Foreign currency translation adjustments

The net change in the foreign currency translation adjustments is as follows:

	As at June 4, 2007	As at May 27, 2006
	$	$
Balance, beginning of year	**121.0**	46.2
Effect of changes in exchange rates during the year:		
On the net investment in self-sustaining foreign subsidiaries	**(90.2)**	(122.6)
On the translation into the reporting currency of financial statements of the parent company and its Canadian subsidiaries	**127.2**	197.4
Disposal of the retail sales segment (Note 4)	**187.2**	-
Balance, end of year	**345.2**	121.0

19. Stock-based compensation plan

The Company has a fixed stock option plan. Under the 1995 Executive Officer Stock Option Plan, the Company may grant options to those employees totalling up to 8 million Class A subordinate voting shares. Under the plan, the exercise price of each option may not be lower than the weighted average price based on volume of the Company's shares on the Toronto Stock Exchange during the five days preceding the date of the granting of the options, and an option's maximum term is 10 years. Granted options vest annually over a maximum period of 4 years.

19. Stock-based compensation plan *(continued)*

Changes that occurred in the number of options are presented as follows:

	2007		2006	
	Number of options *(in millions)*	**Weighted average exercise price** *(in Canadian dollars)*	Number of options *(in millions)*	Weighted average exercise price *(in Canadian dollars)*
Options outstanding, beginning of year	**2.5**	**13.47**	1.9	13.05
Options granted	**0.2**	**14.92**	0.7	14.69
Options exercised	**(0.2)**	**8.78**	(0.1)	10.53
Options cancelled	**-**	**15.89**	-	16.29
Options outstanding, end of year	**2.5**	**14.03**	2.5	13.47
Options exercisable, end of year	**1.8**	**13.61**	1.6	12.48

The following table summarizes information about the stock options outstanding as at June 4, 2007:

	Options outstanding			**Options exercisable**	
Range of exercise price *(in Canadian dollars)*	**Number of options** *(in millions)*	**Weighted average remaining contractual life** *(years)*	**Weighted average exercise price** *(in Canadian dollars)*	**Number of options** *(in millions)*	**Weighted average exercise price** *(in Canadian dollars)*
Below $10	**0.5**	**3.1**	**8.63**	**0.5**	**8.63**
$10 - $15	**1.1**	**8.0**	**14.31**	**0.7**	**14.07**
$15 - $20	**0.9**	**6.7**	**16.53**	**0.6**	**16.69**
	2.5	**6.6**	**14.03**	**1.8**	**13.61**

(Tabular amounts are in millions of US dollars, unless otherwise noted)

19. Stock-based compensation plan *(continued)*

The following data represents the weighted average assumptions used in the stock option valuation in accordance with the Black-Scholes model:

	2007	2006
Dividend yield	**0.95%**	0.81%
Expected volatility	**30.12%**	29.59%
Risk-free interest rate	**4.08%**	3.88%
Expected life (years)	**6**	6

During the fiscal year ended June 4, 2007, the Company granted 239,850 stock options (2006 - 694,657). The weighted average fair value of those options is $C5.12 as at June 4, 2007 (2006 - $C5.21). An amount of $1,731,000 for the fiscal year ended June 4, 2007 was expensed for the stock option plan (2006 - $1,647,000).

Since June 1, 2003, stock-based compensation cost is recorded under the fair value method. Had compensation cost been determined using the fair value based method at the date of grant for awards granted during the fiscal year ended May 31, 2003, the Company's net earnings for the fiscal year ended June 4, 2007 would have been reduced by $86,000 (2006 - $322,000). Basic and diluted earnings per share for those years would have been unchanged.

20. Guarantees and contingencies

Guarantees

On June 4, 2007, the Company sold its US Operations to Rite Aid Corporation (Note 4). In addition to possible indemnification relating to the breach of representations or warranties, the Company agreed to enter into certain customary indemnification obligations in favor of the purchaser on issues such as taxes, employment matters and other indemnification obligations related to facts, circumstances or conditions in existence prior to June 4, 2007 with respect to a prior stock purchase agreement and other related agreements with J.C. Penney Company, Inc. et al. entered into on July 31, 2004. The types of indemnification guarantees generally extend for a period not exceeding 18 months after the closing of the transaction or shortly after the expiration of the applicable statute of limitations while other indemnification guarantees are not limited in time. Certain portions of the Company’s indemnification obligations are capped at $450,000,000 while other provisions are not subject to such a limit.

The Company is unable to estimate the potential liability for these types of indemnification guarantees as the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. The Company has not accrued any amount in respect of those items in the consolidated financial statements.

20. Guarantees and contingencies *(continued)*

The Company has guaranteed the reimbursement of certain bank loans contracted by franchisees for a maximum amount of $2,353,000 as at June 4, 2007 (May 27, 2006 - $5,033,000). Most of those guarantees apply to loans with a maximum maturity of eight years. Those loans are also personally guaranteed by the franchisees.

Buyback agreements

Under buyback agreements, the Company is committed to financial institutions to purchase the inventories of certain of its franchisees up to the amount of advances made by those financial institutions to the franchisees. As of June 4, 2007, financing related to these inventories amounted to $59,859,000 (May 27, 2006 - $55,670,000). However, under these agreements, the Company is not committed to cover any deficit that may arise should the value of these inventories be less than the amount of the advances.

Under buyback agreements, the Company is committed to financial institutions to purchase equipment held by franchisees and financed by capital leases not exceeding five years and loans not exceeding eight years. For capital leases, the buyback value is linked to the net balance of the lease at the date of the buyback. For equipment financed by bank loans, the minimum buyback value is set by contract with the financial institutions. As at June 4, 2007, financing related to the equipment amounts to $18,321,000 (May 27, 2006 - $22,338,000). However, it is the opinion of management that the realizable value of the assets cannot be lower than the eventual amount of the buyback.

Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued with respect to these guarantees in its consolidated financial statements as at June 4, 2007 and May 27, 2006.

Contingencies

Various claims and legal proceedings have been initiated against the Company in the normal course of its operating activities. Although the outcome of these proceedings cannot be determined with certainty, management estimates that any payments resulting from their outcome are not likely to have a substantial negative impact on the Company’s consolidated financial statements.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

21. Commitments

The balance of the commitments under the terms of building and vehicle operating leases maturing up to the year 2047 totals $258,369,000. The Company also has commitments for the construction of buildings with contractors totalling $8,638,000 and agreements with suppliers to purchase inventory and services totalling $22,949,000. Minimum payments payable over the next five years are as follows:

	Operating leases	Other commercial commitments
	$	$
2008	**30.0**	**16.9**
2009	**28.0**	**6.2**
2010	**25.8**	**4.9**
2011	**23.8**	**3.5**
2012	**20.9**	**-**

Under the terms of building leases and subleases, the Company will receive, up to the year 2047, minimum payments totalling $271,485,000. This amount takes into account the renewal of subleases at the same terms and conditions as the lease agreements.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

22. Pension plans

The Company offers defined benefit and defined contribution pension plans providing pension benefits to its employees. The measurement date used for financial reporting purposes of the plan assets and benefit obligations is June 4, 2007 (May 27 in 2006).

The defined benefit and defined contribution pension plans expenses are as follows:

	2007	2006
	$	$
	(Note 1b)	(Note 1b)
Defined contribution pension plans expense	**26.7**	23.5
Defined benefit pension plans		
Current service cost	**0.7**	0.6
Interest expense	**0.7**	0.5
Actual return on plan assets	**(0.3)**	(0.3)
Amortization of past service cost	**3.3**	0.4
Actuarial loss	**0.5**	1.2
Elements of the defined benefit pension plans expense before adjustments to recognize the long-term nature of employe future benefit costs	**4.9**	2.4
Difference between actual return and expected return on plan assets	**(0.1)**	(0.1)
Difference between actuarial loss (gain) recognized for the year and actual actuarial loss (gain) on accrued benefit obligation	**(0.9)**	(1.2)
Defined benefit pension plans expense	**3.9**	1.1

(Tabular amounts are in millions of US dollars, unless otherwise noted)

22. Pension plans *(continued)*

Information about the Company's defined benefit pension plans is as follows:

	As at June 4, 2007	As at May 27, 2006
	$	$
Accrued benefit obligations		
Balance, beginning of year	**12.8**	7.1
Current service cost	**0.7**	0.6
Interest expense	**0.7**	0.5
Past service cost	**-**	3.0
Benefits paid	**-**	(0.1)
Settlements	**(0.1)**	(0.2)
Sale of the retail sales segment	**(3.3)**	-
Actuarial losses (gains)	**0.5**	0.9
Foreign currency translation adjustments	**0.6**	1.0
Balance, end of year	**11.9**	12.8
Plan assets		
Fair value, beginning of year	**5.1**	3.3
Actual return on plan assets	**0.3**	0.3
Employer contributions	**4.6**	1.3
Benefits paid	**-**	(0.1)
Settlements	**(0.1)**	(0.2)
Sale of the retail sales segment	**(3.3)**	-
Foreign currency translation adjustments	**0.4**	0.5
Fair value, end of year	**7.0**	5.1
Accrued benefit obligations	**11.9**	12.8
Plan assets	**(7.0)**	(5.1)
	4.9	7.7
Unamortized net actuarial loss	**2.1**	1.0
Unamortized past service cost	**1.6**	4.8
Accrued benefit liability (included in accounts payable and accrued liabilities)	**1.2**	1.9

(Tabular amounts are in millions of US dollars, unless otherwise noted)

22. Pension plans *(continued)*

As at June 4, 2007 and May 27, 2006, all pension plans had individually accrued benefit obligations in excess of plan assets.

As at June 4, 2007, 28% (2006 - 35%) of the plan assets at fair value was deposited as Canadian refundable tax and 72% (2006 - 65%) was invested. The balance invested consists of the following allocations:

	2007	2006
	%	%
Balanced funds	**47**	44
Equity income and insured annuity	**19**	26
Equity funds	**33**	28
Other	**1**	2

No plan assets are directly invested in the parent company and its subsidiaries' securities.

The main actuarial assumptions adopted in measuring the Company's accrued benefit obligations and the benefits costs are as follows (weighted average):

	2007	2006
	%	%
Accrued benefit obligations		
Discount rate	**4.75**	5.42
Expected long-term rate of return on plan assets	**5.50**	6.00
Rate of compensation increase	**4.00**	4.00
Defined benefit expense		
Discount rate	**5.42**	5.93
Rate of compensation increase	**4.00**	4.00

(Tabular amounts are in millions of US dollars, unless otherwise noted)

23. Related party transactions

The Company entered into the following transactions with enterprises controlled by an executive having a significant influence over the Company:

	2007	2006
	$	$
Revenues	(Note 1b)	(Note 1b)
Sales	**7.3**	6.3
Royalties	**0.5**	0.4
Rent	**0.4**	0.3
	8.2	7.0

As at June 4, 2007, accounts receivable include an amount of $686,000 (May 27, 2006 - $581,000) resulting from these transactions. These transactions are carried out in the normal course of business and are measured at the exchange amount.

Also, as at June 4, 2007, accounts payable and accrued liabilities include an amount of $43,928,000 due to Rite Aid Corporation, a company subject to significant influence, representing the estimated selling price adjustment with regards to the disposal of the retail sales segment.

24. Financial instruments

Fair value

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their book value because of their forthcoming maturity.

The fair value of loans, advances and long-term receivables from franchisees was not determined, since these balances result from transactions carried out in the context of privileged commercial relationships and under terms and conditions that may differ from those that could be negotiated with non-franchisees.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

24. Financial instruments *(continued)*

The estimated fair value of other financial instruments subject to fair value disclosure is determined based on quoted market prices or interest rates for the same or similar instruments. Estimated fair value and carrying amount of those instruments are as follows:

	As at June 4, 2007		As at May 27, 2006	
	Fair value	**Carrying amount**	Fair value	Carrying amount
	$	**$**	$	$
Long-term debt	**7.8**	**7.6**	2,325.3	2,390.8
Derivative financial instruments, asset position:				
Interest rate swap agreements	**-**	**-**	11.4	-

Interest rate risk

Interest rate swap agreements

During fiscal 2005, the Company entered into interest rate swap agreements in order to reduce the impact of fluctuating interest rates on a portion of its long-term debt. The interest rate swaps maturing in July 2011, fixed the LIBOR interest rate on a notional portion of $200,000,000 at 4.11%. These swaps required the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Company designated these interest rate swap agreements as hedges of the interest on the underlying debt. Interest expense on the debt was adjusted to include the payments made or received under the interest rate swap agreements designated as hedges. On May 29, 2007, the Company terminated these contracts.

Credit risk

The Company's exposure to concentrations of credit risk is limited. The non-collection risk is reduced by the fact that accounts receivable are generated by numerous customers.

24. Financial instruments *(continued)*

Foreign currency risk

Even though the Company's reporting currency is the US dollar, non-consolidated financial statements of the parent company and its subsidiaries are prepared based on their respective functional currencies, which is the US dollar for US operations and the Canadian dollar for Canadian operations and corporate activities.

Transactions denominated in currencies other than an entity's functional currency are translated according to the temporal method. Under this method, monetary assets and liabilities in foreign currencies are translated at the exchange rate in effect at the balance sheet date, non-monetary assets and liabilities in foreign currencies at their historical rates and statement of earnings items in foreign currencies at the average monthly exchange rates. All exchange gains and losses are current in nature and are included in the consolidated statement of earnings, unless subject to hedge accounting.

Concentration risk

During fiscal 2007, the Company purchased a significant portion of its branded prescription drugs for its US network from a single supplier, McKesson Corporation, with whom the Company had a supply contract prior to the sale of the retail sales segment.

(Tabular amounts are in millions of US dollars, unless otherwise noted)

25. Supplemental cash flow information

	2007	2006
	$	$
	(Note 1b)	(Note 1b)
Net changes in non-cash operating asset and liability items		
Accounts receivable, income taxes receivable and prepaid expenses	**(33.6)**	(21.0)
Inventories	**22.5**	(68.2)
Accounts payable and accrued liabilities and income taxes payable	**21.4**	(48.3)
Other long-term assets	**(2.8)**	(0.3)
Other long-term liabilities	**(13.0)**	(26.2)
Net changes in non-cash operating asset and liability items	**(5.5)**	(164.0)
Other information		
Interest paid	**239.5**	184.7
Income taxes paid	**32.7**	28.4

On November 4, 2005, the Company sold certain real estate assets of its Canadian franchising segment for a total consideration of $94.0 million ($C 111.7 million) in cash and entered into leaseback agreements for the areas used by the Jean Coutu drugstores. The Company realized a pre-tax gain on disposal of $20.9 million ($C 24.8 million). Even though only 41% of the leasable area sold represents the leaseback portion, GAAP requires, under certain criteria, that the entire gain be deferred over the life of the new leases, which have an average duration of approximately 16 years. The deferred gain is presented in the other long-term liabilities.

26. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation of the current year.