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## AN EXCEPTIONAL YEAR ALL AROUND

### **Dear shareholders,**

Uniprix inc. has reported \$94,816,000 in total revenue for fiscal 2007, as well as net earnings of \$2,818,000.

This may well be the most timely and appropriate gift imaginable, as we proudly celebrate the 30th anniversary of the most important group of independent pharmacists in Québec.

Our pride is all the more legitimate, considering that these results were achieved in the face of a very difficult economic situation.

In fact, the slowdown of the US economy has generated a climate of uncertainty in Canada and in all of its economic sectors, including retail, must now come to terms with volatile markets.

Above and beyond the specter of a recession however, and in a more immediate manner, we have succeeded in harnessing all of our energy and resources to deal with competitors who, throughout the year, have proven more determined and more aggressive than ever before.

### **A competitive environment**

In the course of its 30-year history, and largely through the steadfast commitment of its pharmacists and shareholders, the Uniprix Group has carved itself a most enviable position within the retail pharmacy industry in Québec, as witness the sustained growth of our revenues and earnings, the effective commitment of our pharmacists within their respective communities and, most of all, the satisfaction and loyalty of our clients all over the province.

Obviously, such a position and the attendant market shares are envied by our competitors, whether retail pharmacy chains or superstores. For 30 years nevertheless, Uniprix's pharmacists and shareholders have steadfastly held, and even improved their position in the face of that competition, banking on their personal strength as well as on the collective force that constitutes the Uniprix Group.

Recently however, we have been witnessing a veritable tug-of-war where our main competitors are deploying a whole array of measures, tactics and strategies in an attempt to corner the most profitable market shares or grab the most successful pharmacies so as to expand their own banner.

An aggravating circumstance is the fact that several pharmacists are retiring or considering retirement in the near future and, if need be, will sell their retail outlet. At the same time, there doesn't seem to be an end in sight to the present shortage of pharmacists, nor a significant professional relief.

Given such a situation, it should not come as a surprise that Uniprix's competitors are on the prowl, trying to lure our shareholders to either change banners or sell their business straight out.

## Change and challenges

Uniprix's management could not and will not remain passive in the face of such an head-on attack on our pharmacists' and shareholders' assets which constitute the very foundations of our group's development and success.

Our counterattack took on a variety of forms and mobilized significant energy and resources throughout 2007: recruiting pharmacists in the ranks of competitors, managing pharmacies (in the short term), conveying properties, etc. Ever proactive, the Uniprix Group further expanded its ranks as it welcomed four new pharmacies under the Uniprix banner and three new pharmacies under the Unipharm banner. More new openings are expected in 2008.

Simultaneously, Uniprix's management took great care consolidating and enhancing the assets, services and programs which represent the primary *raison d'être* of the Uniprix Group: enrichment of our agreement with McKesson Canada, extensive deployment of the Aeroplan program, deployment of the Unilab price management program, etc.

These initiatives and accomplishments (it goes without saying) somewhat disrupted the day-to-day "routine" of the head office, if not that of our pharmacists and shareholders. So much so that some of them have made public their grievances towards the Uniprix Group and its management.

While we are concerned about these shareholders' methods, we took careful note of their comments and criticisms, just as we listen attentively to the requests and recommendations of each and everyone of Uniprix's pharmacists and shareholders.

For such purposes moreover, we endeavor to initiate and multiply the opportunities to meet and discuss with pharmacists and shareholders, as witness the annual meeting of shareholders and the extraordinary general meetings, as well as the tour of Québec which took place during the past year.

The head office team, an integral part of the Uniprix, Unipharm, Clinique Santé and Uniclinique banners' success, pay very close attention to the changes that may affect our clientele and our industry. Actually, this may well be one of the undisputed strengths of the Uniprix Group: our attention to the needs of consumers and our attention to the needs of independent pharmacists.

This strength has enabled us to reach record levels at the end of fiscal 2007. Looking forward, this strength should enable us to keep thinking and discussing the necessary changes that will allow Uniprix to develop as a group more and more relevant and more and more responsive to the needs of its shareholders and their clients.



**Normand Bonin**  
Chairman of the Board



**François Castonguay**  
President and CEO



## INTRODUCTION

As they celebrate Uniprix's 30th anniversary, pharmacists and shareholders can rightfully take great pride in their group's standing in Québec's retail pharmacy industry.

From day one, they devoted significant resources and, above all, tremendous energy to ensuring the development of their respective pharmacies, and meeting the needs and expectations of their clientele.

Their group has been a driving force over all those years, so much so that, today, Uniprix posts record revenues and earnings. These results could not have been made possible without the optimum combination of our pharmacists' and shareholders' individual efforts and the collective initiatives undertaken by Uniprix.

It goes without saying that such an impressive success has drawn the attention, and made the envy of our competitors who, for many years now, have been stepping up their efforts to grab some extra market shares in a constantly evolving industry.

A whole array of means and tactics have been deployed towards that end, It is common knowledge today however that the prime targets of our competitor's manoeuvring are our pharmacists' and shareholders' points of sale which are distinguished by their location and, most importantly, by their loyal customer base.

We are actually witnessing the overt raiding of our retail outlets, as well as the multiplication of (mostly financial) incentives, all designed to appropriate Uniprix's and its pharmacists' and shareholders' assets.

Evidently, we could not and cannot stand idly by while all this manoeuvring is unfolding. Uniprix therefore has mobilized and will continue to mobilize significant resources and all its energy in order to safeguard and consolidate its assets, support its shareholders and perpetuate its business model.

During fiscal 2007 alone, we have had to exercise our right of first refusal on several occasions in order to protect our assets and ensure an harmonious transition, in the best interests of Uniprix and of the concerned pharmacists.

Our efforts were profitable: as at December 31, 2007, Uniprix included 195 pharmacies, compared to 193 as at December 31, 2006.

Likewise, it is worth noting that December 31, 2007, also marked the closing of the first complete year of operations of Unidis ULC, our joint venture with McKesson Canada.

Since its inception, Unidis has bought two pharmacies (in December 2006) and three more during fiscal 2007.

*Now more than ever,  
THE neighborhood  
pharmacy is Uniprix.  
With 5,000 to 10,000 square  
feet of floor space, these  
outlets offer both  
a large dispensary  
and a well-stocked,  
inviting commercial  
section.*



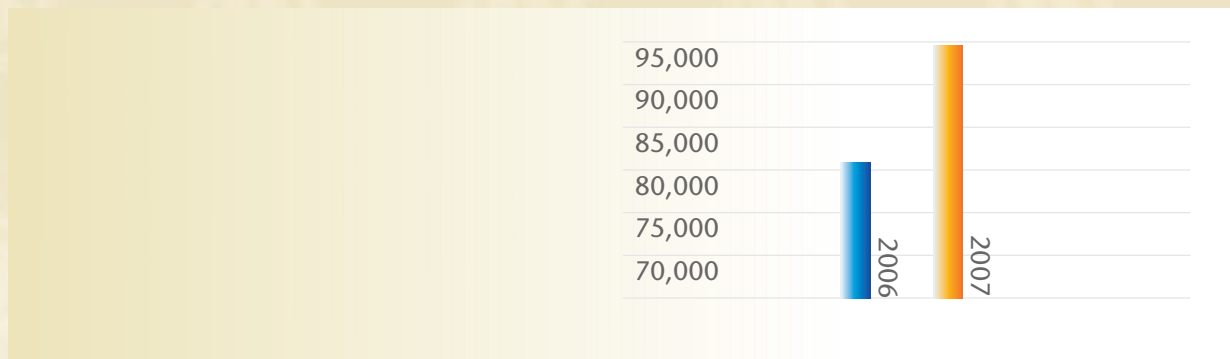
## HIGHLIGHTS

At the end of fiscal 2007, Uniprix's total revenue stood at \$94,816,000, an increase of \$13,811,000, or 17%, compared to fiscal 2006 when total revenue stood at \$81,005,000.

This increase is mainly attributable to the revenues generated by the Unidis joint venture, to the revenues from our distribution agreement with McKesson Canada, and to the revenues linked to points of sale interior design projects carried out by Uniprix during fiscal 2007.

## TOTAL REVENUE

(in millions of dollars)



Operating expenses increased by 16.8% during fiscal 2007, and stood at \$90,172,000 as at December 31, 2007, compared to \$77,219,000 as at December 31, 2006.

*Under the Unipharm banner, intermediate-size pharmacies offer an impressive variety of products. These outlets are well-established within their community and distinguished by the quality of service they offer their clients.*



## TOTAL REVENUE (CONTINUED)

This increase in operating expenses however is still slightly smaller than the increase in total revenue, so that Uniprix's earnings before income taxes stood at \$4,644,000 as at December 31, 2007, an increase of \$858,000 or 22.7% compared to fiscal 2006.

For fiscal 2007, these earnings before income taxes were affected in part by an allowance for credit losses, to the amount of \$1,399,000, by a provision for contingent losses on investments, to the amount of \$243,000, and by a loss in value of goodwill, to the amount of \$550,000.

The cost of products and services increased by 15% compared to fiscal 2006, a result that is consistent with the increase in total revenue recorded at the end of fiscal 2007. This increase in the cost of products and services is mainly attributable to the increase in the cost of interior design projects carried out during fiscal 2007, and to the increase in purchases of special promotion products.

For fiscal 2007, sales and administrative expenses totaled \$5,580,000, compared to \$3,795,000 for fiscal 2006. A significant portion of this increase is linked to the operation of five pharmacies by Unidis.

Net financial expenses increased by \$546,000 and stood at \$1,524,000 for fiscal 2007. This increase results directly from the debt service increase. During fiscal 2007, Uniprix bought three pharmacies through Unidis and also acquired real estate properties. Moreover, Uniprix granted over \$23,000,000 in new loans to pharmacists and shareholders, an amount without precedent in the Company's 30-year history. These transactions were conducted strictly to protect Uniprix's assets from the aggressive solicitation of our pharmacists and shareholders, as undertaken by our competitors.

*As they entered a very promising partnership, Clinique Santé and the Uniprix Group brought together the largest number of pharmacists owners in Québec within the already-established largest group of independent pharmacists. And for a good reason: the Uniprix Group has always understood and respected the needs and expectations of independents.*



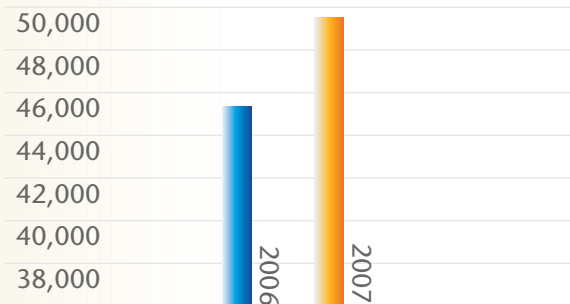
## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### TOTAL REVENUE (CONTINUED)

Expenses relating to services to members, advertising and marketing increased by 9%, from \$45,739,000 for fiscal 2006 to \$49,872,000 for fiscal 2007.

### SERVICES TO MEMBERS, ADVERTISING AND MARKETING EXPENSES

(in thousands of dollars)



*In 2007, more than 8 million items bearing the private brand Option+ logo were sold in Québec. In other words, each person in Québec bought more than one Option+ product!*



## EARNINGS

For fiscal 2007, Uniprix reported net earnings of \$2,818,000, compared to net earnings of \$2,225,000 for fiscal 2006.

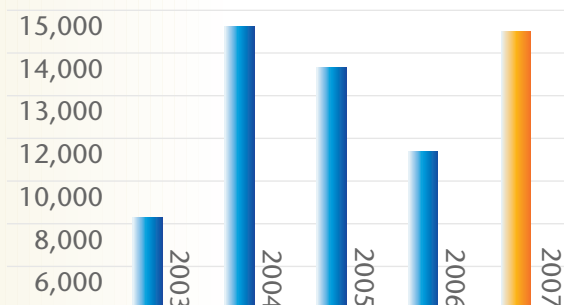
This impressive increase of \$593,000, or 27%, properly reflects the exceptional year that Uniprix has enjoyed in 2007 and represents another historic record for our Company.

Throughout the year, Uniprix has successfully taken advantage of an exceptionally competitive business environment to distinguish itself even more clearly from its competitors, enhance its competitive advantages and, thereby, improve its profitability. As it grows more and more attractive, this profitability has been instrumental in our negotiations with financial partners and allowed us to secure the credit facilities we needed to protect Uniprix's assets and to support our pharmacists and shareholders as they prepare to take over from their colleagues.

At the end of fiscal 2007, Uniprix's earnings per share thus stood at \$14,507, compare to \$11,647 at the end of fiscal 2006.

## EARNINGS PER SHARE

(in dollars)



*Uniprix is an Aeroplan partner. The Aeroplan loyalty program is very well established in Québec and generates excellent results. Since the implementation of this program at Uniprix, the value of the basket of our clients who are Aeroplan members has averaged 50% more than that of non-Aeroplan members. This represents a powerful marketing tool for Uniprix.*

## BUSINESS ACQUISITIONS

During fiscal 2007, Uniprix, through the Unidis joint venture, acquired three pharmacies, while it had previously acquired two retail outlets in December 2006. As at December 31, 2007, Uniprix had directly invested \$3,879,000 to acquire those three pharmacies, whereas \$5,665,000 had been invested in December 2006 for the acquisition of the other two pharmacies.

## REAL ESTATE PROPERTIES AND REAL ESTATE PROPERTY TO BE SOLD

During fiscal 2007, Uniprix invested \$2,119,000 in liquidities to acquire three buildings and invest in a fourth property. One of these buildings is presently up for sale.

## CASH POSITION

Uniprix's operating activities during fiscal 2007 generated \$4,703,000 in liquidities, to which must be added some \$23,652,000 in net financing obtained with financial partners.

These liquidities were used mainly to grant loans to pharmacists and shareholders, to the amount of \$22,831,000, net of cashed-in investments used to acquire pharmacies (\$3,879,000) and to acquire real estate properties (\$2,119,000).

The inflow of liquidities and the use of liquidities available at the start of fiscal 2007 show a \$2,402,000 increase in the bank overdraft which totaled \$3,963,000 as at December 31, 2007.

*With its exclusive dermocosmetic concept, Uniprix adds to its competitive advantages in a constantly evolving market. Women are now considering Uniprix as a destination of choice where they will find the products and services they need for greater welfare and better health.*



## FINANCIAL POSITION

As at December 31, 2007, Uniprix's consolidated assets stood at \$103,720,000, an increase of \$31,900,000 from December 31, 2006.

This increase is mainly attributable to the amounts invested with pharmacists and shareholders, which reached record level in 2007, as well as to the acquisition of pharmacies and real estate properties.

Liabilities have also increased, by \$29,254,000, and stood at \$83,907,000 as at December 31, 2007, compared to \$54,653,000 as at December 31, 2006. Under the combined effect of the increase in liabilities and the increase in assets, shareholders' equity increased by \$2,646,000 and stood at \$19,813,000 as at December 31, 2007, compared to \$17,167,000 as at December 31, 2006.

At the end of fiscal 2007, Uniprix's financial ratios showed a significant fluctuation compared to the end of fiscal 2006. The debt/equity ratio, for instance, stood at 4.2:1, compared to 3.2:1 as at December 31, 2006, and 3.6:1 as at December 31, 2005. This ratio reflects the fact that in 2007, compared to the previous fiscal periods, a larger portion of the increase in assets has been financed by third parties.

As at December 31, 2007, Uniprix did not comply with the financial ratios set by the financial institutions. Uniprix has nevertheless entered into a new credit agreement with the banks.

 **PharmaChoice** *Advice for Life*

*In 2007, the Uniprix Group entered into a partnership with Pharmachoice, which operates 259 outlets across Canada. This partnership fostered the pan-Canadian deployment and the significant growth of the Option+ line of products.*



## RISKS AND UNCERTAINTIES

Taking into account the large number of customers who constitute its clientele, Uniprix considers that the credit risk related to debtors is minimal. As at December 31, 2007, the Company had no significant credit risk exposure related to a debtor.

The present financial statements include amounts based on judgments and estimates. The financial information presented elsewhere in this annual report is in conformity with the data presented in the consolidated financial statements audited by Behna, Cormier, Gougeon, Ouellette, S.E.N.C.R.L.



François Castonguay

President and CEO  
Acting Chief Financial Officer

*As a partner in one of the most reputable sports stadium in Québec, Uniprix lends its name to first-rate facilities where both the world elite and amateurs of all age can practice their favorite sport.*



## CONSOLIDATED INCOME

FOR THE YEAR ENDED DECEMBER 31  
(in thousands of dollars)

	2007 \$	2006 \$
<b>REVENUES</b>	<u>94,816</u>	<u>81,005</u>
<b>OPERATING EXPENSES</b>		
Cost of products and services	29,837	25,849
Services to members, advertising and marketing	49,872	45,739
Selling and administrative expenses	5,580	3,795
Net financial expenses (note 20)	1,524	978
Doubtful accounts (recovery)	1,399	(65)
Amortization (note 21)	1,167	816
Allowance for contingent loss on investments (note 8)	243	107
Goodwill impairment loss (note 4)	550	-
	<u>90,172</u>	<u>77,219</u>
<b>INCOME BEFORE INCOME TAXES</b>	4,644	3,786
<b>INCOME TAXES</b> (note 22)	<u>1,826</u>	<u>1,561</u>
<b>NET INCOME</b>	<u>2,818</u>	<u>2,225</u>

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31  
(in thousands of dollars)

	2007 \$	2006 \$
<b>BALANCE, BEGINNING OF YEAR</b>	17,112	14,987
Net income	<u>2,818</u>	<u>2,225</u>
	19,930	17,212
Refundable dividend tax on hand (note 5)	<u>(172)</u>	<u>(100)</u>
<b>BALANCE, END OF YEAR</b>	<u>19,758</u>	<u>17,112</u>

The accompanying notes are an integral part of the consolidated financial statements.



## CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31  
(in thousands of dollars)

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
	\$	\$
<b>CURRENT ASSETS</b>		
Accounts receivable (note 6)	30,940	29,853
Income taxes receivable	638	-
Inventories	1,501	870
Prepaid expenses	307	317
Advances, no interest	1,610	750
Current portion of investments (note 8)	9,970	7,454
	<hr/>	<hr/>
	44,966	39,244
<b>REAL ESTATE PROPERTY HELD FOR SALE</b> (note 7)	613	-
<b>INVESTMENTS</b> (note 8)	25,805	7,005
<b>REAL ESTATE PROPERTIES</b> (note 9)	7,106	3,560
<b>CAPITAL ASSETS</b> (note 10)	5,236	4,819
<b>DEFERRED CHARGES</b> (note 11)	2,059	1,854
<b>INTANGIBLE ASSETS</b> (note 12)	1,117	1,009
<b>FUTURE INCOME TAXES</b> (note 22)	1,976	2,354
<b>GOODWILL</b> (note 4)	14,842	11,975
	<hr/>	<hr/>
	103,720	71,820
	<hr/>	<hr/>

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT DECEMBER 31  
(in thousands of dollars)

### LIABILITIES

#### CURRENT LIABILITIES

	2007 \$	2006 \$
Bank overdraft (note 13)	3,963	1,561
Bank loan (note 13)	13,565	18,555
Accounts payable and accrued liabilities (note 14)	15,322	13,841
Income taxes payable	-	792
Deferred revenues	4,498	1,553
Current portion of long-term debt (note 15)	13,409	2,780
	<u>50,757</u>	<u>39,082</u>

#### LONG-TERM DEBT (note 15)

	25,411	6,687
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#### DEFERRED EXCLUSIVE RIGHTS REVENUES

	7,739	8,884
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	<u>83,907</u>	<u>54,653</u>
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### SHAREHOLDERS' EQUITY

#### SHARE CAPITAL (note 16)

	49	49
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#### CONTRIBUTED SURPLUS (note 17)

	6	6
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#### RETAINED EARNINGS

	19,758	17,112
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	<u>19,813</u>	<u>17,167</u>
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	<u>103,720</u>	<u>71,820</u>
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The accompanying notes are an integral part of the consolidated financial statements.

SIGNED ON BEHALF OF THE BOARD:



Normand Bonin, Director



Jacques Arsenault, Director



## CONSOLIDATED CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

**OPERATING** (note 19)

	<b>2007</b>	<b>2006</b>
	\$	\$
Net income	2,818	2,225
Adjustments for:		
Amortization of deferred financing costs (note 20)	65	127
Amortization (note 21)	1,167	816
Allowance for contingent loss on investments (note 8)	243	107
Loss from disposal of a real estate property	-	7
Goodwill impairment loss (note 4)	550	-
Future income taxes (note 22)	378	(1,464)
	<u>5,221</u>	<u>1,818</u>
Net change in non-cash items related to operations (note 19)	<u>(518)</u>	<u>15,643</u>
	<u><b>4,703</b></u>	<u><b>17,461</b></u>

**INVESTING** (note 19)

Business acquisition (note 4)	(3,879)	(5,665)
Net change in advances	(860)	(750)
Increase in investments	(25,989)	(13,231)
Decrease in investments	3,158	3,767
Acquisition of real estate properties	(2,119)	(1,443)
Proceeds from disposal of a real estate property	-	165
Acquisition of capital assets	(218)	(212)
Acquisition of intangible assets	(366)	-
Increase in deferred charges	(484)	(1,405)
	<u>(30,757)</u>	<u>(18,774)</u>
Balance to carry forward	<u>(26,054)</u>	<u>(1,313)</u>

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

	2007 \$	2006 \$
Balance to carry forward	<u>(26,054)</u>	<u>(1,313)</u>
<b>FINANCING</b> (note 19)		
Net change in bank loan	(4,990)	4,155
Increase in long-term debt	31,401	4,428
Repayment of long-term debt	(2,587)	(2,619)
Share issuance	4	3
Share redemption	(4)	(2)
Refundable dividend tax on hand	(172)	(100)
	<u>23,652</u>	<u>5,865</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,402)</b>	<b>4,552</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u><b>(1,561)</b></u>	<u><b>(6,113)</b></u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><b>(3,963)</b></u>	<u><b>(1,561)</b></u>

The accompanying notes are an integral part of the consolidated financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

**NOTE 1— STATUTES OF INCORPORATION AND NATURE OF ACTIVITIES**

The Company, incorporated under the Canada Business Corporations Act, provides group purchasing, advertising and operational services to its shareholders and members (hereafter "members").

**NOTE 2— SIGNIFICANT ACCOUNTING POLICIES**

These financial statements were prepared in accordance with Canadian generally accepted accounting principles. Outlined below are those policies considered particularly significant for the Company.

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiary "Corporation Financière Uniprix / Uniprix Financial Corporation" as well as the accounts of joint ventures "Unidis ULC" and "Immeuble 2235 Galt Ouest", consolidated proportionally.

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, as well as reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

**Revenue recognition**

The Company recognizes its revenues from the sale of goods when goods are shipped to the wholesaler.

Royalties, which are calculated based on members' sales figures, are recognized in income when earned.

Revenues from advertising, services to members and real estate activities are recognized in income when services are rendered.

Revenues are recognized when reasonable assurance exists regarding collection.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank overdraft and highly liquid investments with maturity of less than three months.

**Inventories**

Inventories are valued at the lower of cost, determined according to the first-in, first-out method, and net realizable value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 2— SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Investments

Investments are recorded at cost less an allowance for contingent loss. An investment is classified as impaired when, in management's opinion, there has been a deterioration in the credit quality to the extent there is no longer assurance of timely collection of the full amount of principal and interest. In management's opinion, the allowance for contingent loss on investments recognized by the Company is sufficient. This allowance is determined on an item-by-item basis and reflects the associated credit loss. The allowance corresponds to the amount required to reduce the carrying value of an impaired investment to its estimated realizable amount determined according to management's estimates of forecasted recovery and fair value of securities held.

#### Real estate properties

Real estate properties held for rental are recorded at cost and are amortized over their estimated useful lives, using the diminishing balance method at the rate of 4%.

The real estate property held for sale is not amortized.

#### Capital assets

Capital assets are recorded at cost. Amortization is provided over their respective estimated useful lives, using the methods, terms or rate as follows:

	Methods	Terms or rate
Building	Diminishing balance	4%
Signs	Straight-line	10 years
Furniture and fixtures	Straight-line	10 years
Equipment	Straight-line	10 years
Rolling stock	Straight-line	3 years
Computer equipment	Straight-line	3 years
Leasehold improvements	Straight-line	Lease term
Computer equipment under capital leases	Straight-line	3 years
Equipment under a capital lease	Straight-line	5 years

#### Deferred charges

Deferred financing costs are amortized using the straight-line method over the long-term financing period.

Affiliation fees are amortized using the straight-line method over the agreement period.

Tenants inducements are amortized using the straight-line method over the related lease agreements period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(CONTINUED)FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)**NOTE 2— SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Intangible assets**

Rights to lease are recorded at cost and are amortized using the straight-line method over the remaining lease period.

Non-compete agreements are amortized using the straight-line method over the agreement period.

Software development in progress will be amortized using the straight-line method over three years, beginning when the software will be in operation, which is expected to be in 2008.

**Goodwill**

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is no longer amortized since January 1st, 2002 and, since then, is tested annually for impairment or more frequently if events or changes in circumstances indicate a potential impairment. The impairment test consists of comparing the fair value of the reporting unit related to the goodwill to its carrying value. When the carrying value exceeds the fair value of the goodwill, an impairment loss is recorded in income of the period during which the impairment occurs.

**Deferred exclusive rights revenues**

Revenues from exclusive rights agreements are deferred and amortized over the related agreements period using the straight-line method.

**Income taxes**

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recorded for the estimated income taxes payable for the year and future income taxes are recorded for temporary differences between tax values and carrying values of assets and liabilities. Enacted tax rates are used to calculate future income taxes at the balance sheet date. Future income tax assets from loss carryforwards and temporary differences are recorded when it is more likely than not that the asset will be realized.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 3 — NEW ACCOUNTING PRONOUNCEMENTS

#### ACCOUNTING CHANGES

During the year, the entity applied the new Section 1506 "Accounting changes" of the Canadian Institute of Chartered Accountants (CICA) Handbook, which includes modifications to the former Section 1506. According to the new section, an entity should change an accounting policy only if the change is required by a primary source of generally accepted accounting principles (GAAP) or if the change results in more reliable and relevant information disclosed in the financial statements. In addition, the new standard requires additional disclosures on changes in accounting policies, changes in accounting estimates and errors. Finally, when a primary source of GAAP has been issued but is not yet applied because of its mandatory effective date, this fact shall be mentioned along with the possible impact on the financial statements if known or reasonably estimable.

The application of this new pronouncement had no impact on the financial position and the results of operations of the entity.

#### FUTURE CHANGES TO ACCOUNTING POLICIES

In 2005, CICA issued the following three new sections of the Handbook:

Section 3855 "Financial instruments – recognition and measurement" provides indications on when a financial instrument should be recognized on the balance sheet and how it should be measured. It includes, amongst other, directions on the classification of financial instruments in one of the following five categories: Held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are initially recorded on the balance sheet at their fair value and, subsequently, measured at their fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost using the effective interest method. Held for trading financial instruments are measured at fair value and gains and losses resulting from the re-evaluation are recorded in net income for the period during which they arise. Available-for-sale financial assets are measured at fair value and gains and losses resulting from the re-evaluation are recorded in "other comprehensive income", a new caption of the financial statements created by the application of Section 1530 as explained below.

Section 1530 "Comprehensive income" establishes standards for reporting changes in equity resulting from transactions and other events from non-owner sources. According to those standards, a new financial statement will be prepared. "Other comprehensive income" includes unrealized gains and losses on available-for-sale financial assets, unrealized gains and losses on translating financial statements of self-sustaining foreign operations and changes in gains and losses on derivatives designated as cash flow hedges. Consequently, "Accumulated other comprehensive income" will be a new item included in equity on the balance sheet.

Section 3865 "Hedges" specifies when and how an entity can use hedge accounting. Hedge accounting results in all gains, losses, revenues and expenses from the derivative and the hedged item be recorded in net income in the same period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(CONTINUED)FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)**NOTE 3 — NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)****FUTURE CHANGES TO ACCOUNTING POLICIES (continued)**

In 2006, sections 3862 "Financial instruments – disclosures" and 3863 "Financial instruments – presentation" were issued. These sections replace the current Section 3861. They specify standards on information required to evaluate the significance of the financial instruments on the entity's financial position and the nature and extent of risks arising from financial instruments, as well as standards for the presentation of financial instruments and non-financial derivatives.

Also in 2006, CICA issued Section 1535 "Capital disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. It describes information to be disclosed concerning objectives, policies and processes for managing capital. It also requires information on whether during the period, the entity complied, if applicable, with externally imposed capital requirements to which it is subject and, if not, the consequences of such non-compliance.

The application of all the above-mentioned changes in accounting policies is mandatory for periods beginning on or after October 1st, 2007 and will be applied retroactively in the financial statements, without restatement of comparative figures.

In 2007, CICA issued Section 3031 "Inventories", which replaces the current Section 3030, and should be applied to periods beginning on or after January 1st, 2008. According to the new standard, inventories shall be measured at the lower of cost and net realizable value. The only methods to be used to determine the cost of inventories shall be the first-in, first-out (FIFO) or the weighted average cost formula, except when items are not ordinarily interchangeable, in which case the specific cost formula could be used. In addition, when there is an increase in net realizable value of inventories following a write-down, the entity will be able to reverse the write-down previously recorded in order to increase the carrying value of inventories to their net realizable value, without exceeding their initial cost.

In 2008, CICA issued Section 3064 "Goodwill and intangible assets", which is effective for periods beginning on or after October 1st, 2008, and will be applied retroactively with restatement of the comparative periods. It replaces Sections 3062 "Goodwill and other intangible assets" and 3450 "Research and development costs", currently in use. This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Standards for goodwill and research and development costs included in Section 3064 are similar to the current standards. However, standards applicable to intangible assets were modified and provide guidance ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed.

Management has not yet completed the evaluation of the impact the adoption of these new accounting policies will have on the financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 4— BUSINESS ACQUISITION

During the year the Company acquired, through a joint venture, substantially all of the assets and liabilities of "Les Entreprises Noubar Mouradian Inc.", "Estpharm Inc." and "Jofranet Inc.". The Company also acquired, through a joint venture, an investment in "Immeuble 2235 Galt Ouest".

On December 4, 2006, the Company acquired, through a joint venture, substantially all of the assets and liabilities of "Groupe J-C Dessureault Inc." and "Escomptes J.C. Dessureault Ltée".

The fair value of the net assets acquired details as follows:

	2007	2006
	\$	\$
Accounts receivable	20	-
Inventories	651	641
Capital assets	293	216
Real estate properties	2,200	-
Non-compete agreements	-	959
Goodwill	3,417	3,966
Current liabilities assumed	(1,243)	(117)
Long-term debt assumed	(1,459)	-
	<hr/>	<hr/>
Net assets acquired and cash consideration	<b>3,879</b>	<b>5,665</b>

Changes in the carrying value of goodwill detail as follows:

	2007	2006
	\$	\$
Balance, beginning of year	11,975	8,009
Acquisition	3,417	3,966
Impairment (1)	(550)	-
	<hr/>	<hr/>
Balance, end of year	<b>14,842</b>	<b>11,975</b>

(1) During the year, certain points of sale for which a related goodwill was recorded, did not renew their affiliation agreement with the Company. The goodwill impairment loss was determined based on the relative fair value of the points of sale sold and the points of sale retained.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 4— BUSINESS ACQUISITION (CONTINUED)

The proportionate share of assets and liabilities of the joint ventures as at December 31, 2007 and the proportionate share of revenues and expenses, net income and cash flows of the joint ventures from acquisition date, detail as follows:

	2007	2006
	\$	\$
Current assets	1,519	933
Long-term assets	12,395	5,160
Current liabilities	299	344
Long-term liabilities	1,357	-
Revenues	4,108	180
Expenses	4,035	179
Net income	73	1
Cash flows related to the following activities:		
Operating	(240)	44
Investing	(5,204)	(5,665)
Financing	(28)	(61)

### NOTE 5— REFUNDABLE DIVIDEND TAX ON HAND

The Company is a "Canadian-controlled private corporation" under the Income Tax Act. This status allows it to receive the refund of a portion of the income taxes it has paid. The cumulative balance of the refundable dividend tax on hand as at December 31, 2007, amounts to \$311,000. This amount may be refunded to the Company at the rate of \$1 for each \$3 of taxable dividends paid if the Company is still a "Canadian-controlled private corporation" when the dividends are paid.

### NOTE 6— ACCOUNTS RECEIVABLE

	2007	2006
	\$	\$
Clients and members	33,158	30,679
Allowance for doubtful accounts	(2,218)	(826)
	<hr/>	<hr/>
	30,940	29,853
	<hr/>	<hr/>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 7— REAL ESTATE PROPERTY HELD FOR SALE

During the year, the Company acquired a real estate property rented to a member. Management decided to sell the said property in 2008. The property includes land for \$43,234 and a building for \$570,166, totaling \$613,400.

### NOTE 8— INVESTMENTS

	2007 \$	2006 \$
Receivable from companies controlled by members		
Notes receivable, non-interest bearing, receivable in monthly instalments of \$16,667, maturing from 2008 to 2026	2,977	3,432
Notes receivable, interest ranging from 5.5% to 7.75% and from prime rate to prime rate plus 3%, receivable in monthly instalments ranging from \$1,500 to \$10,416, maturing from 2008 to 2016	13,892	5,318
Demand notes receivable, non-interest bearing	309	1,570
Advances, non-interest bearing, variable instalments	3,539	2,622
Demand notes receivable, interest at 7% and at prime rate plus 1.5%, maturing from 2009 to 2013	5,318	843
Demand notes receivable, interest ranging from 3% to 7.5% and from prime rate to prime rate plus 1.5%	9,986	731
	36,021	14,516
Other investments	599	545
Allowance for contingent loss	(845)	(602)
	35,775	14,459
Current portion of investments	9,970	7,454
	25,805	7,005



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 8— INVESTMENTS (CONTINUED)

The following table presents the investments classified by expected reception dates:

	Less than a year	1 to 3 years	4 to 5 years	5 years or more	No maturity	<b>Total 2007</b>	Total 2006
	\$	\$	\$	\$	\$	\$	\$
Notes receivable							
Non-interest bearing	576	1,180	352	579	-	<b>2,687</b>	3,432
Bearing interest							
from 5.5 % to 6.5 %	210	369	163	203	-	<b>945</b>	1,397
from 7 % to 7.75 %	520	2,221	1,511	5,555	-	<b>9,807</b>	2,509
from prime rate to prime rate plus 3 %	1,383	1,280	374	103	-	<b>3,140</b>	1,412
Demand notes receivable							
Non-interest bearing	-	-	-	-	814	<b>814</b>	1,024
Bearing interest							
from 3 % to 7.5 %	5,151	88	35	45	-	<b>5,319</b>	1,382
from prime rate plus 1% to prime rate plus 1.5%	10	75	30	-	9,750	<b>9,865</b>	661
Avances, sans intérêt	2,120	854	100	50	-	<b>3,124</b>	2,622
Autres placements	-	-	-	-	74	<b>74</b>	20
	<u>9,970</u>	<u>6,067</u>	<u>2,565</u>	<u>6,535</u>	<u>10,638</u>	<u><b>35,775</b></u>	<u>14,459</u>

Impaired investments and allowance for contingent loss detail as follows:

<b>Impaired investments</b>	Total investment	Allowance	<b>Net amount 2007</b>	Net amount 2006
	\$	\$	\$	\$
Note receivable, prime rate, maturing in December 2009	136	136	-	-
Demand note receivable, non-interest bearing	705	200	<b>505</b>	193
Note receivable, prime rate plus 1%, no maturity	313	100	<b>213</b>	-
Advances, prime rate, receivable in variable instalments starting in March 2008	230	115	<b>115</b>	115
Preferred shares of "Services PromoPost Inc."	294	294	-	294
	<u>1,678</u>	<u>845</u>	<u><b>833</b></u>	<u>602</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 8— INVESTMENTS (CONTINUED)

#### Allowance for contingent loss on investments

	2007	2006
	\$	\$
Balance, beginning of year	602	495
Write-off	7	-
Increase in allowance	236	107
Net change for the year	243	107
Balance, end of year	845	602

### NOTE 9— REAL ESTATE PROPERTIES

	2007		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	1,474	-	1,474
Buildings	6,694	1,062	5,632
	<u>8,168</u>	<u>1,062</u>	<u>7,106</u>
	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	1,165	-	1,165
Buildings	2,626	231	2,395
	<u>3,791</u>	<u>231</u>	<u>3,560</u>

Gross rental income was \$652,000 for the year (\$612,620 in 2006).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

**NOTE 10— CAPITAL ASSETS**

	<b>2007</b>		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	1,247	-	1,247
Building	3,870	1,330	2,540
Signs	79	53	26
Furniture and fixtures	348	201	147
Equipment	350	28	322
Rolling stock	10	3	7
Computer equipment	215	83	132
Leasehold improvements	280	11	269
Computer equipment under capital leases	507	398	109
Equipment under a capital lease	748	311	437
	<u>7,654</u>	<u>2,418</u>	<u>5,236</u>
		<b>2006</b>	
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Land	1,247	-	1,247
Building	3,870	1,223	2,647
Signs	68	46	22
Furniture and fixtures	335	125	210
Equipment	147	1	146
Rolling stock	10	1	9
Computer equipment	169	99	70
Leasehold improvements	24	-	24
Computer equipment under capital leases	548	317	231
Equipment under a capital lease	412	199	213
	<u>6,830</u>	<u>2,011</u>	<u>4,819</u>

During the year, the Company acquired capital assets for \$40,597 (\$212,979 in 2006) and acquired assets financed through capital leases for \$351,815 (\$131,535 in 2006).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 11— DEFERRED CHARGES

	2007	2006
	\$	\$
Financing costs	-	65
Affiliation fees	1,915	1,622
Tenants inducements	144	167
	<u>2,059</u>	<u>1,854</u>

### NOTE 12— INTANGIBLE ASSETS

	2007		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Rights to lease	1,584	1,584	-
Non-compete agreements	959	208	751
Software development in progress	366	-	366
	<u>2,909</u>	<u>1,792</u>	<u>1,117</u>
	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Rights to lease	1,584	1,518	66
Non-compete agreements	959	16	943
	<u>2,543</u>	<u>1,534</u>	<u>1,009</u>

Changes in net book value of intangible assets detail as follows:

	2007	2006
	\$	\$
Balance, beginning of year	1,009	225
Non-compete agreements from business acquisition (note 4)	-	959
Software development in progress	366	-
Amortization expense (note 21)	(258)	(175)
Balance, end of year	<u>1,117</u>	<u>1,009</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

**NOTE 13— BANK LOAN AND BANK OVERDRAFT**

The Company has an authorized line of credit of \$25,500,000, renewable annually and bearing interest at prime rate. It is secured by a chattel mortgage of \$75,000,000 on all the present and future properties of the Company, by a general assignment of accounts receivable, by a security according to section 427 of the Bank Act, by a chattel mortgage of \$30,000,000 on all the rights to lease of pharmacies and by the proceeds from insurance on the secured assets in favor of the bank.

The credit agreement includes certain covenants, which must be met by the Company at all times and a restriction on the endorsements the Company can provide.

As at December 31, 2007, certain credit agreement covenants were not met. However, the Company entered into a new credit agreement as described in note 15 (1). The new credit agreement includes a credit margin of \$25,500,000, of which a portion of \$24,000,000 bears interest at that rate of 1 month to 6 months bankers acceptances plus 1.75% or at the rate of 6 months to 12 months bankers acceptances plus 2.00%, and a portion of \$1,500,000 at prime rate plus 0.25%. A stand-by fee of 0.25% will be calculated on any unused portion of the credit margin. The new credit agreement includes guarantees similar to those existing as at December 31, 2007.

**NOTE 14— ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	2007	2006
	\$	\$
Accounts payable and accrued charges	13,567	12,999
Deferred royalties - Directors	144	-
Deferred royalties - others	749	-
Salaries and fringe benefits	622	842
Sales taxes	240	-
	<u>15,322</u>	<u>13,841</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 15— LONG-TERM DEBT

	2007	2006
	\$	\$
Term loans, prime rate plus 0.5% to 1.25%, secured by first rank mortgages on real estate properties and by chattel mortgages on all the present and future movable assets, payable by monthly instalments ranging from \$5,692 to \$56,225, maturing in 2017 and 2021, renewable in 2011 and 2012 (1)	13,446	964
Term loans, interest ranging from 5.95% to 6.76%, secured by first rank mortgages on real estate properties and by chattel mortgages on all the present and future movable assets, payable by monthly instalments ranging from \$3,958 to \$6,250, maturing from 2013 to 2022, renewable in 2009 and 2012 (1)	6,154	630
Term loans, interest ranging from 5.50% to 7.37%, secured by mortgages on land and building, payable by principal monthly instalments of \$14,722 plus interest, maturing in 2016 (1)	1,590	1,767
Promissory note, 7%, no reimbursement terms, secured by the subsidiary	5,125	-
Promissory note, prime rate of Bank of Canada, no reimbursement terms	5,000	-
Demand notes payable, 7%	400	400
Obligations under capital leases, 6% to 7.8%, payable by monthly instalments ranging from \$63 to \$7,987, principal and interest, maturing from July 2009 to July 2012	627	491
Term financing, 5.95%, payable by monthly instalments of \$3,333, secured by a mortgage on the real estate property held for sale, maturing in 2022, renewable in 2012	570	-
Balance to carry forward	<u>32,912</u>	<u>4,252</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

**NOTE 15— LONG-TERM DEBT (CONTINUED)**

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
Balance to carry forward	<b>32,912</b>	4,252
Notes payable, non-interest bearing, payable by monthly instalments ranging from \$0 to \$27,083, maturing from 2007 to 2015	<b>3,714</b>	3 931
Term loan, 5.45%, secured by land and building at 2235 Galt West, Sherbrooke, payable by monthly instalments of \$15,254, principal and interest (1)	<b>1,431</b>	-
Note payable, 6.5% until June 30, 2011 and prime rate plus 1% thereafter, payable by monthly instalments of \$7,353, principal and interest, maturing in 2016	<b>575</b>	600
Note payable, prime rate, principal and interest payable in one instalment if the pharmacy is sold by the member	<b>188</b>	-
Loan, 6.27%, reimbursed during the year	-	597
Advances, non-interest bearing, reimbursed during the year	-	87
	<b>38,820</b>	9,467
Current portion of long-term debt	<b>13,409</b>	2,780
	<b>25,411</b>	6,687

(1) These term loans include certain covenants, some of which are not met. However, the financial institution has waived its rights to demand accelerated payments related to the breach of these covenants as at December 31, 2007. Moreover, the Company has entered into a new credit agreement on December 23, 2008. The new credit agreement includes the refinancing of the term loans at fixed rates ranging from 5.95% to 6.70% and at prime rate plus 0.75%. The loans are secured by first rank mortgages on real estate properties and by chattel mortgages on all present and future movable properties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 15— LONG-TERM DEBT (CONTINUED)

As at December 31, 2007, future instalments and renewable balances over the next five years were as follows:

	PAYABLE	RENEWABLE	
	Long-term debt	Obligations under capital leases	
	\$	\$	\$
2008	13,180	266	-
2009	2,644	217	478
2010	2,595	124	-
2011	2,541	89	1,706
2012	2,504	8	10,034
	23,464	704	12,218
Interest included in minimum instalments	-	77	-
	23,464	627	12,218

### NOTE 16— SHARE CAPITAL

#### Authorized share capital

An unlimited number, without par value of:

**Class A shares**, voting, participating, redeemable at \$250 per share

**Class B shares**, non-voting, non-participating, redeemable at \$8.85 per share

	2007	2006
	\$	\$
<b>Issued shares</b>		
195 (193 in 2006) Class A shares	49	49

During the year, the Company issued 17 Class A shares for a cash consideration of \$4,250 (in 2006, issuance of 12 Class A shares for a cash consideration of \$3,000) and redeemed 15 Class A shares for a cash consideration of \$3,750 (in 2006, redemption of 8 Class A shares for a cash consideration of \$2,000).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 17— CONTRIBUTED SURPLUS

The contributed surplus results from the excess of the paid-up capital of Class A shares over the cash consideration paid on redemption.

### NOTE 18— COMMITMENTS

The Company is committed under operating leases maturing from 2008 to 2013, which aggregate to \$4,101,206, and include the following instalments over the next five years:

	\$
2008	1,476
2009	894
2010	631
2011	400
2012	350

The Company is committed under long-term leases for commercial premises maturing from 2008 to 2022, which aggregate to \$65,750,600, and include the following instalments over the next five years:

	\$
2008	9,543
2009	9,363
2010	8,491
2011	7,650
2012	6,585

The Company subleases the whole of the premises from these leases to its members and companies controlled by members under the same terms and conditions. Since the Company acts solely as an intermediary, and is not the principal obligor in these arrangements, neither the sublease revenue nor the rent expenditure is recorded in income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 19— CASH FLOWS

	2007	2006
	\$	\$
<b>Net change in non-cash items related to operations</b>		
Accounts receivable	(1,067)	13,734
Inventories	20	1
Prepaid expenses	10	(9)
Accounts payable and accrued liabilities	149	(4,910)
Deferred revenues	2,945	406
Deferred exclusive rights revenues	(1,145)	6,041
Income taxes	(1,430)	380
	<u>(518)</u>	<u>15,643</u>
<b>Additional information</b>		
Interest paid	2,174	1,129
Interest received	864	167
Income taxes paid	3,050	2,745
<b>Investing and financing activities not involving cash</b>		
Capital assets payable	89	-

In accordance with commercial agreements with certain suppliers, the Company offsets cash receipts from investments with notes payable to these suppliers. These transactions had no effect on cash flows of the Company and aggregate to \$1,272,297 (\$3,322,159 in 2006).

### NOTE 20— NET FINANCIAL EXPENSES

	2007	2006
	\$	\$
Interest and penalties	12	22
Bank charges	159	91
Interest on bank loan	1,810	702
Interest on long-term debt	414	399
Amortization of deferred financing costs	65	127
Investment revenues and interest	(936)	(363)
	<u>1,524</u>	<u>978</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

**NOTE 21 — AMORTIZATION**

	<b>2007</b>	<b>2006</b>
	\$	\$
Real estate properties	160	98
Capital assets	535	403
Deferred charges other than financing costs	214	140
Intangible assets	258	175
	<hr/>	<hr/>
	<b>1,167</b>	<b>816</b>

**NOTE 22 — INCOME TAXES**

The combined statutory tax rate on income of the Company is 32.02% (32.02% in 2006). The reconciliation between the income tax expense calculated at the aforementioned statutory tax rate and the actual income tax expense is as follows:

	<b>2007</b>	<b>2006</b>
	\$	\$
Income taxes at the combined statutory tax rate	1,486	1,212
Increase (decrease):		
Increase (decrease) in future statutory rate	(67)	38
Non-deductible elements	346	207
Prior years income taxes	-	(6)
Other - net	61	110
	<hr/>	<hr/>
	<b>1,826</b>	<b>1,561</b>
Comprising:		
Current income taxes	1,448	3,025
Future income taxes	378	(1,464)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 22— INCOME TAXES (CONTINUED)

The tax effects of significant items comprising the Company's future income tax assets and liabilities are as follows:

	2007	2006
	\$	\$
Investments	120	-
Real estate properties and capital assets	(98)	(98)
Deferred charges	(557)	(477)
Intangible assets	(159)	(75)
Deferred exclusive rights revenues	2,275	2,750
Obligations under capital leases	184	155
Non-capital losses	221	165
Others	(10)	(66)
	<u>1,976</u>	<u>2,354</u>
Net future income taxes		

### NOTE 23— RELATED PARTY TRANSACTIONS

During the year, the Company entered into transactions with entities controlled by members of the Board of Directors. The following table presents a summary of these transactions:

	2007	2006
	\$	\$
Revenues	4,029	3,673

These transactions were carried out in the normal course of business and were measured at the exchange amount, which is the amount of the consideration established and agreed to by the related parties.

As at the balance sheet date, balances receivable from those related parties are:

	2007	2006
	\$	\$
Accounts receivable	2,740	3,089
Investments	1,636	1,850



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

### NOTE 24— FINANCIAL INSTRUMENTS

#### CREDIT RISK

The Company carries out, on a continuing basis, credit checks on its clients and reviews credit history of each new customer. The Company establishes allowances for contingent credit losses taking into account the credit risk of particular clients, historical trends and other information. These clients adhere to the credit policies they are granted. A significant portion of accounts receivable relates to members. However, the Company is not exposed to any important credit risk related to a particular client.

#### INTEREST RATE RISK

The Company issued notes receivable and demand notes and uses a line of credit and contracted long-term debt bearing floating interest rates. Consequently, it is exposed to an interest rate risk resulting from the fluctuation in the prime rate. However, a prime rate change of 1% would have no significant effect on the Company's income or financial position.

#### FAIR VALUE

The fair value of accounts receivable, bank overdraft, bank loan and accounts payable and accrued liabilities approximates carrying value because of their short-term maturity.

The fair value of long-term investments, substantially all of which have been granted to members, and non-interest bearing notes payable, all of which are owed to suppliers, was not determined since these balances result from transactions carried out to maintain or to develop privileged commercial relationships, and do not necessarily reflect terms and conditions that would have been negotiated with arm's length parties.

The fair value of other long-term debt approximates its book value since an important portion bears interest at rates similar to market rates.

### NOTE 25— CONTINGENCIES

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including, but not limited to, product liability, labour and employment. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2007  
(tabular amounts are in thousands of dollars)

**NOTE 26— PENSION PLAN**

The Company provides a simplified defined contributions pension plan to its employees. The Company contributes \$1 for each \$1 contribution paid by the employee, up to a maximum of 3% of gross salary. Contributions paid by the Company for the year ended December 31, 2007 totalled \$181,400 (\$169,800 in 2006).

**NOTE 27— SUBSEQUENT EVENTS**

In February 2008, the Company has committed, according to an agreement, to finance the acquisition of a pharmacy for \$2,300,000.

In addition, the Company lent \$15,900,000 in the form of a demand note, bearing interest at prime rate plus 1.5%. This note is secured personally by two pharmacists and by the whole of the assets of three pharmacies acquired by these pharmacists. This demand note was financed by a demand note of \$10,000,000, bearing interest at 7.5% and by the bank overdraft.

The Company also lent \$1,644,000 in the form of a demand note, bearing interest at prime rate.

Finally, the Company signed a purchase offer for a building and land for \$300,000. The Company contracted a loan of \$300,000, 7%, payable by monthly instalments of \$4,513, principal and interest, maturing in March 2015.

**NOTE 28— COMPARATIVE FIGURES**

The prior year's comparative figures were reclassified to conform with the presentation adopted in 2007.



## MANAGEMENT'S RESPONSIBILITY REGARDING THE PRESENTATION OF FINANCIAL INFORMATION

The enclosed consolidated financial statements of Uniprix Inc. and all the information contained in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements were prepared by management according to Canadian generally accepted accounting principles. When it was possible to use diverse accounting methods, management chose those it deemed to be most appropriate in the circumstances.

The main accounting standards used are indicated in Note 2 to the consolidated financial statements. These financial statements contain certain amounts that are based on estimates and judgments. Management determined these amounts in a reasonable manner to ensure that the financial statements are fairly presented, in all material respects. Management also prepared the financial information presented elsewhere in the annual report and ensured it was in accordance with the consolidated financial statements.

Uniprix has internal accounting controls and administrative procedures that are designed to provide a reasonable degree of certainty that the financial information is relevant, reliable and accurate, and that Uniprix's assets are correctly accounted for and protected.

The Board of Directors is responsible for ensuring that management fulfills its duties regarding the presentation of financial information and is ultimately responsible for examining and approving financial statements. The Board of Directors carries out this responsibility mainly through its Audit Committee.

The Audit Committee is named by the Board of Directors, and its members are external directors. The Audit Committee meets with management and external auditors periodically to discuss internal control procedures, accounting and audit questions, as well as the presentation of financial information, to ensure all parties correctly fulfill their duties, and to examine consolidated financial statements and the external auditors' report. The Audit Committee shares its findings with the Board of Directors once it approves the publication of consolidated financial statements for shareholders.

The consolidated financial statements were audited on behalf of shareholders by the external auditors Behna, Cormier, Gougeon, Ouellette, S.E.N.C.R.L. in accordance with Canadian generally accepted auditing standards. The external auditors have free and full access to the Audit Committee.

President and CEO  
Acting Chief Financial Officer



François Castonguay

To the Shareholders of UNIPRIX INC.

We have audited the consolidated balance sheet of **UNIPRIX INC.** as at **December 31, 2007** and the consolidated statements of income, retained earnings and cash flows for the year 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 audit.

We conducted our audit 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 **December 31, 2007** and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Bertha Louise Angen Ouellette* S.E.N.C.R., L.

Chartered Accountants

Montréal  
March 24, 2008  
Except for notes 13 and 15 dated December 23, 2008







**UNIPRIX**

**pharm**

**CLINIQUE  
M. Sirois**

**UNICLINIQUE**

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