The Jean Coutu Group (PJC) Inc.

2010 Annual Report

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Throughout this document, The Jean Coutu Group (PJC) Inc. and its subsidiaries, unless otherwise indicated, are referred to as "Company", "Jean Coutu Group", "we" or "our". This Management's Discussion and Analysis of the financial position and results of operations ("MD&A") should be read in conjunction with the Interim Consolidated Financial Statements and the notes thereto for the fiscal years ended February 27, 2010 and February 28, 2009.

The Jean Coutu Group is one of the most trusted names in Canadian pharmacy retailing. The Company operates a network of 370 franchised stores located in the provinces of Québec, New Brunswick and Ontario, under the banners of PJC Jean Coutu, PJC Clinique, PJC Santé and PJC Santé Beauté, which employs more than 17,000 people. Furthermore, as of December 2007, we own Pro Doc Ltd ("Pro Doc"), a Québec-based subsidiary and manufacturer of generic drugs. The Company also holds a significant interest in Rite Aid Corporation ("Rite Aid"), a national chain of drugstores in the United States with nearly 4,800 stores in 31 states and the District of Columbia.

Report to shareholders
4th quarter and year-end results

To our shareholders:

The Jean Coutu Group is pleased to report its financial results for the fourth quarter and the fiscal year ended February 27, 2010.

Revenues increased by 4.9% to $637.0 million during the fourth quarter of fiscal year 2010 compared with $607.2 million during the same period of the fiscal year 2009. During the fiscal year ended February 27, 2010, revenues amounted to $2.543 billion, compared with $2.369 billion during the fiscal year ended February 28, 2009, an increase of 7.3%.

Operating income before amortization ("OIBA") amounted to $71.2 million for the fourth quarter of fiscal year 2010 compared with $61.5 million for the fourth quarter of fiscal year 2009, an increase of 15.8%. OIBA as a percentage of revenues ended the fourth quarter of fiscal 2010 at 11.2% compared with 10.1% during the fourth quarter of the fiscal year 2009 and at 10.6% during the fiscal year 2010 compared with 9.8% during the fiscal year 2009.

No share of loss in Rite Aid was accounted in the Company’s earnings during the fourth quarter of fiscal year 2010 compared with $768.8 million ($3.26 per share) during the fourth quarter of the fiscal year 2009. For the fiscal year 2010, the share of Rite Aid’s loss in the Company’s results amounted to $55.2 million ($0.23 per share) compared with $1.327 billion ($5.48 per share) during the fiscal year 2009. These are a non-cash charges.

For the fourth quarter of fiscal year 2010, the net earnings amounted to $42.8 million ($0.18 per share) compared with a net loss of $733.6 million ($3.11 per share) for the fourth quarter of fiscal year 2009. For the fiscal year 2010, the net earnings amounted to $112.6 million ($0.48 per share) compared with a net loss of $1.192 billion ($4.92 per share).

Earnings before specific items and share of loss in Rite Aid amounted to $42.9 million ($0.18 per share) during the fourth quarter of fiscal year 2010 compared with $38.5 million ($0.16 per share) during the fourth quarter of the previous fiscal year. Earnings before specific items and share of loss in Rite Aid amounted to $162.7 million ($0.69 per share) during the fiscal year 2010 compared with $142.6 million ($0.59 per share) during the fiscal year 2009.

During the fourth quarter of fiscal year 2010, PJC network of franchised stores retail sales increased by 5.8% while these sales, on a same-store basis, increased by 3.8%. During the of fiscal year 2010, PJC network of franchised stores retail sales increased by 7.0% while these sales, on a same-store basis, increased by 4.5%.

"We are very satisfied with the results of the fourth quarter and fiscal year 2010. We successfully continued the implementation of our business plan, which resulted in a strong growth of the OIBA" said Mr. François J. Coutu, President and Chief Executive Officer." In the course of the next year, we will continue to build upon our position as a leader in pharmacy and we will keep striving to maintain our growth objectives."

On February 27, 2010, there were 370 stores in the PJC network of franchised stores.

The Board of the Jean Coutu Group declared a quarterly dividend of $0.055 per share, which represents an increase of 22.2% over the dividend paid the previous quarter. This dividend will be payable on May 28, 2010, to all holders of Class A subordinate voting shares and holders of Class B shares listed in the Company’s shareholder ledger as of May 14, 2010. This quarterly dividend represents $0.22 per share on an annual basis.

With its operations and financial flexibility, the Company is very well positioned to capitalize on the growth in the drugstore retail industry. Demographic trends 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 maintain its growth in revenues through differentiation and quality of offering and service levels to its network of franchised stores, with a focus on sales growth, its real estate program and operating efficiency.

The management of the Company has been informed of the prescription drug reform proposed by the Minister of Health and Long-term Care in Ontario. Announced modifications include a change in the price of generic drugs as well as a decrease in the professional allowances paid to pharmacists by generic drug manufacturers. This reform has not yet been ratified by the Legislative Assembly of Ontario, and changes might be introduced before its adoption. Management does not believe that the proposed reform in Ontario will have a significant impact on the consolidated results of the Company.

Furthermore, the management of the Company has not been informed of the Quebec Ministry of Health and Social Service's intention regarding its drug policy following the adoption of this reform in Ontario. If measures similar to those proposed in Ontario were to be adopted in Quebec, the Company's consolidated results could be impacted.

Yours truly,

/s/ François J. Coutu

Francois J. Coutu
President and Chief Executive Officer

Non-GAAP financial measures

Management used certain non-GAAP financial measures such as:

- Operating income before amortization ("OIBA");
- Earnings (and earnings per share) before specific items and share of loss in Rite Aid.

These measures have been reconciled with performance measures defined by the Canadian GAAP in the related section of the Management's Discussion and Analysis.

Company profile

The Jean Coutu Group (PJC) Inc. (*the "Company*" or *the "Jean Coutu Group*") exercises its activities in the Canadian drugstore retailing industry, essentially in Eastern Canada, through franchised drugstores under the banners PJC Jean Coutu, PJC Clinique, PJC Santé and PJC Santé Beauté (*the "PJC franchised stores"*). In addition, since December 2007, the Jean Coutu Group owns Pro Doc Ltd ("*Pro Doc*"), a Quebec based subsidiary specialized in the manufacturing of generic drugs. The Company also holds a significant interest in Rite Aid Corporation (''*Rite Aid''*), an American national drugstore chain with close to 4,800 drugstores in 31 states and the District of Columbia.

MISSION STATEMENT

The Jean Coutu Group is a leader in the North American drugstore industry in its chosen markets. The Company offers high quality products for health, hygiene and beauty, in a friendly and efficient environment. Our strength lies in the reputation of the PJC drugstore network, our marketing leadership and the support services provided to our franchisees. We are committed to providing superior returns to our shareholders and offering interesting careers to all the professionals and employees of the Jean Coutu Group and the PJC network.

OBJECTIVE

The Jean Coutu Group strives to be recognized as a Canadian leader in the retail industry with an excellent financial performance and by acting as a dominant player in its sector.

Profile of the Canadian network of franchised stores

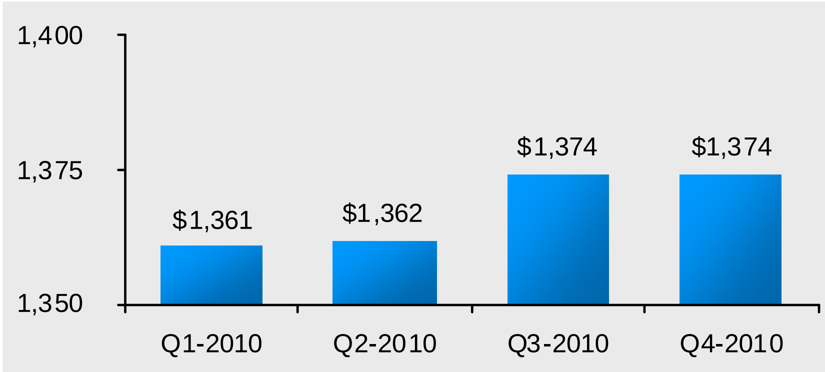
The Jean Coutu Group is a leading pharmacy franchisor in Canada with 370 PJC franchised stores in Quebec, Ontario, and New Brunswick. Our franchising activities include operating two distribution centers and providing services to our PJC stores. These services comprise centralized purchasing, distribution, marketing, training, human resources, management, operational consulting and information systems, as well as a 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, for the products which are available and priced competitively to other suppliers. Based on total network retail sales, we supply our PJC franchisees with approximately 85% of the value of products sold, including 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 drugstores filled 67.6 million prescriptions during fiscal 2010, for a weekly average of 3,586 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.

Our stores use leading retail design to offer a warm and positive shopping experience for customers. Our preferred store format is 12,000 to 14,000 square feet. However, we build different formats adapted to the communities we serve. In the front-end of our drugstores, we offer some food and convenience products but we focus mainly on customer wellness, offering a full choice of health and beauty products as well as general merchandise and seasonal products. Furthermore, 10.8 % of our front-end retail sales come from the sale of 2,850 private label and exclusive products. These popular products are known to represent excellent value and help enhance margins, customer traffic and loyalty.

We also offer digital processing services and our clients have access to Canada Post services in 69 PJC stores.

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



Fiscal 2010

Retail sales per square foot are a key performance indicator. The PJC franchised stores' network retail sales per square foot have grown during fiscal 2010 to $1,374 for the fourth quarter in spite of the fact that the PJC franchised stores' network total square footage increased by 5.6 % over the past year. It is the best performance in the market. The average PJC establishment is a leader in the drugstore retailing industry with annual sales of $11.6 million.

STRATEGIC INITIATIVES

Expansion and modernization of the network

During fiscal 2010, we completed several real estate projects that improved our drugstore base and opened 22 "*Boutiques Passion Beauté*". We continued to expand our network with the opening of 22 PJC franchised stores, of which 5 were relocations. In addition, 41 PJC franchised stores were renovated or expanded.

Each year, we continue 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 in our network.

Advertising, sponsorship and Internet site

Several promotional campaigns were introduced in fiscal 2010. Two of these were created in the context of our 40th anniversary and were supported by televised advertising campaigns and an in-store display program. We also maintained a strong presence on local radio stations.

To maximize our presence with customers, we have sponsored several events held throughout the province during the year. We have also set up once more our Summer and Winter Tours: The *Fabuleux Cirque Jean Coutu* and the *Jean Coutu Health Patrol*. These two teams visited several family attraction sites and ski resorts where they offered participants product samples in partnership with many of our suppliers and health and safety tips in a festive atmosphere.

We have continued the development of our Internet site to offer more comprehensive information adapted to the needs of our customers, as well as exclusive promotions and services, such as the on-line ordering service for back-to-school items and the purchasing of Jean Coutu gift cards.

Human resources

The pharmacist-owners and their employees work towards the shared goals of first class customer service and professionalism across the entire PJC network. The Company maintains close ties to various Schools of Pharmacy informing students of career opportunities in Jean Coutu pharmacies and offering them financial support. Furthermore, the Company provides its pharmacist-owners with the tools required to run a successful retail business, with over half of the specialized training devoted to human resources topics. Ongoing professional training and development as well as employee retention are key elements of our program. During the year, the Company pursued its "*Clientitude*" or client-attitude employee training program, focused on continuing to improve our customer service. Training programs are available for both pharmacy and front end staff through the PJC Intranet and related hardware at each of our PJC franchised stores. New hires and other staff can brush up on their department's standards of service using these easy-to-access, technology enabled tools. The Company and its pharmacist-owners are making the necessary investments in the human resources aspect of their activities in order to remain the leading pharmacy retailer.

Most admired retailer in Quebec

We are very pleased to report that the Jean Coutu Group was recently ranked as the third most admired company in Quebec and first as retailer in a survey conducted by Leger Marketing. This preferred position in the Quebec market is well ahead of any of our competitors in the pharmacy and retail sector and the consulted population is almost unanimous in its 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.

Pharmacy services

One of the Jean Coutu Group's key objectives is to be recognized as the Number 1 Health destination in its market. Several programs were developed over the years to enable us to meet that objective such as the Diabetes Information Kits, the Arthritis Information Kits and the "*Quit to Win*" Smoking Cessation Kits, all exclusively distributed at PJC franchised stores. These kits are always extremely popular amongst our patients.

One of our key initiatives is to continuously improve our use of state-of-the-art technology. We continue to emphasize the advisory role of our pharmacists as we continue to improve our Rx-Pro pharmacy support software. This tool allows us to obtain personalized patient information and to assist with customers' prescription drug compliance. Our personalized service is another reason why customers are loyal to their Jean Coutu pharmacist.

AIR MILES^{tm} Reward Program

The AIR MILES^{tm} program is the largest coalition loyalty program in Canada and the most appreciated by consumers. The program is offered in the PJC franchised stores of Quebec, New Brunswick and Ontario. For more than three years now, the Jean Coutu Group has been and still is the only AIR MILES^{tm} sponsor to offer its customers the possibility of exchanging in-stores their reward miles to pay for their purchases. This service, which is much appreciated by consumers, has a direct and positive impact on the average value of transactions using this payment mode.

Not only does the AIR MILES^{tm} loyalty program allow us to attract customers and ensure their loyalty, but it is also a source of information on our customers and their purchasing profiles. This strategic marketing tool allows us to differentiate ourselves through targeted marketing initiatives but also to adapt our strategies in accordance to the real and unique purchasing profiles of our customers.

Cosmetics

PJC Jean Coutu is an important market leader in cosmetics. The PJC Jean Coutu cosmetic spaces offer a comprehensive selection of cosmetic lines: popular and prestige brands, a large section of dermo-cosmetic products and a new category bringing together very specific product lines, the Beauty brands. A wide selection of makeup products and a comprehensive offering of fragrances are also available. To remain innovative and abreast of the new needs of consumers, the PJC Jean Coutu cosmetic offering is constantly evolving and regularly proposes new product lines. Several exclusive makeup and care lines have also been introduced over the last year.

The customer service and the quality of the advice provided by our cosmeticians remain a priority. Our continuous training program for cosmeticians, one of the most demanding of the industry, allows us to offer our customers the best beauty expertise in our sector, as well as beauty tips of an outstanding quality.

The expansion and renovation program of the "*Boutiques Passion Beauté*" of the Jean Coutu network allows us to enhance and improve the cosmetics offer on an on-going basis. 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.

During fiscal 2010, 22 new "*Boutiques Passion Beauté*" were added, for a total of 103 boutiques as at February 27, 2010.

Photo Solutions

We are 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. Also, exclusive promotions are available through our Internet site and through PJC e-mail lists. In fiscal 2010, the Jean Coutu network continued to build market share in the photo subcategory to maintain its position as the leading retail digital photo destination in Quebec.

Private Label and Exclusive Lines Programs

We strive to continuously innovate by introducing new private brands and exclusive products on a regular basis, emphasizing on health, beauty and candy areas. During fiscal 2010, we introduced over 40 new products. The candy category in particular grew significantly thanks to the introduction of new chocolate references and blends of nuts. We also reviewed the design of some product lines, more particularly in the category of household products, thus generating a significant increase of sales.

Pro Doc – Generic Drug Manufacturer

In December 2007, we undertook to diversify by acquiring Pro Doc, a company specialized in the manufacturing of generic drugs.

During fiscal 2010, we have observed a significant growth of product lines and sales at Pro Doc. The strong operational performance of Pro Doc combined with the increased purchasing from Quebec pharmacists allowed this subsidiary to grow sales substantially during fiscal 2010 which positively impacted the Company's results.

NEW INITIATIVES IN FISCAL 2011

During fiscal 2011, we will be introducing several new private and exclusive products and we will add to the current lines of products while pushing ahead with the review of the design of some important categories. We will also continue to ensure the progress of our cosmetic offer.

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. Investments will also target staff training so as to improve store service levels while improving operating efficiency throughout the network.

Our expansion and renovation program of the PJC network will continue, also contributing to an increase in sales. In fiscal 2011, we plan to open 15 new PJC franchised stores, relocate 11 stores, complete 42 renovation and expansion projects and open more than 20 "*Boutiques Passion Beauté*".

Finally, we will continue to promote the PJC Jean Coutu brand through advertising, promotions and sponsorships 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.

INVESTMENT IN RITE AID CORPORATION

On June 4, 2007, the Company sold its United States drugstore network comprising 1,854 corporate drugstores to Rite Aid in exchange for a cash consideration of approximately US $2.3 billion and 250 million shares of Rite Aid common stock, giving it an approximate 32% common equity interest in the expanded company.

During fiscal 2010, the Company's share of loss in Rite Aid exceeded the carrying value of its investment. As required by Canadian GAAP, the Company reduced the carrying value of its investment down to zero and ceased recording its share of loss in Rite Aid exceeding the carrying value of its investment, since the Company has not guaranteed obligations of Rite Aid and is not committed to provide further financial support to Rite Aid. The company holds a 28.4 % equity interest in Rite Aid as at February 27, 2010. Readers are referred to the Rite Aid investment section of this Annual Report for more details on their fiscal 2010 results.

Readers are also referred to Rite Aid's public disclosure documents for the details of the components of their strategy. In addition to information contained in Rite Aid's public disclosure documents, readers are referred to their website at www.riteaid.com.

Management's Discussion and Analysis

FINANCIAL STATEMENTS AND FISCAL YEARS

The Company's Consolidated Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Unless otherwise indicated, all amounts are in Canadian dollars.

The following table shows exchange rates based on the Bank of Canada closing rates expressed in Canadian dollars per US dollar.

	February 27, 2010	February 28, 2009	March 1, 2008
Average rate [1]	**1.1120**	1.1040	1.0170
Closing rate	**1.0525**	1.2723	0.9844

[1] Average of the closing exchange rates for each day of the relevant period.

The fiscal year ended February 27, 2010, contained 52 weeks as well as the fiscal year ended February 28, 2009. The fiscal year ended March 1, 2008, exceptionally contained 38 weeks and 5 days due to the change in the fiscal year-end date.

Fiscal year	Year-end date	Number of weeks
2010	February 27, 2010	52
2009	February 28, 2009	52
2008	March 1, 2008	38 and 5 days

Results from fiscal year 2009 compared with the results from fiscal year 2008 show significant increases. These increases are mainly due to the fact that fiscal year 2008 only had three quarters because of the Company's change in fiscal year-end date following the disposal of its US operations to Rite Aid on June 4, 2007. Therefore, it was not deemed relevant to comment each fluctuation between both fiscal years in this MD&A.

Readers are referred to the MD&A's section of the 2009 Annual Report for more information and for an explanation of the fluctuations between the 2009 and 2008 fiscal years.

DEFINITIONS

Revenues

Revenues consist of sales plus other revenues derived from franchising activities. Merchandise sales to PJC franchisees through our distribution centres account for most of our sales. PJC franchised stores retail sales are not included in our revenues. However, any change in their retail sales directly affects our revenues since PJC franchisees purchase most of their inventory from our distribution centres.

Other revenues consist of royalties from franchisees based on a percentage of their retail sales, rental revenues and revenues related to certain services rendered to franchisees.

Share of loss in Rite Aid, a company subject to significant influence
The Company holds a 28.4% equity interest in Rite Aid and this investment is accounted for under the equity method in which the Company records its share of loss in Rite Aid.

During the fiscal year ended February 27, 2010, the Company's share of loss in Rite Aid exceeded the carrying value of its investment. As required by Canadian GAAP, the Company reduced the carrying value of its investment down to zero and ceased recording its share of loss in Rite Aid exceeding the carrying value of its investment, since the Company has not guaranteed obligations of Rite Aid and is not committed to provide further financial support to Rite Aid.

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

NON-GAAP FINANCIAL MEASURES

Management used certain non-GAAP financial measures such as:

- Operating income before amortization ("OIBA");
- Earnings (loss) before specific items or earnings (loss) per share before specific items;
- Earnings (and earnings per share) before specific items and share of loss in Rite Aid.

Operating income before amortization ("OIBA")
OIBA is not a measure of performance under Canadian GAAP; however, management uses this performance measure in assessing the operating and financial performance of its operations. Besides, we believe that OIBA is an additional measure used by investors to evaluate operating performance and capacity of a company to meet its financial obligations.

However, OIBA is not and must not be used as an alternative to net earnings or cash flow generated by operating activities as defined by Canadian GAAP. OIBA is not necessarily an indication that cash flow will be sufficient to meet our financial obligations. Furthermore, our definition of OIBA may not be necessarily comparative to a similar measure reported by other companies.

Net earnings (loss), which is a performance measure defined by Canadian GAAP, is reconciled hereunder with OIBA.

(unaudited, in millions of dollars)	**Q4-2010**	Q4-2009	**Fiscal year 2010**	Fiscal year 2009	Fiscal year 2008 (1)
	$	$	**$**	$	$
Net earnings (loss)	**42.8**	(733.6)	**112.6**	(1,192.1)	(251.4)
Financing (revenues) expenses	**0.3**	4.7	**(4.2)**	12.6	5.1
Adjustment to gain on sale of the retail sales segment	**-**	-	**-**	-	4.2
Share of loss in Rite Aid	**-**	768.8	**55.2**	1,327.0	393.3
Income taxes	**20.1**	15.0	**74.9**	61.8	3.8
Operating income	**63.2**	54.9	**238.5**	209.3	155.0
Amortization per financial statements	**4.5**	4.2	**17.6**	16.1	11.7
Amortization of incentives paid to franchisees (2)	**3.5**	2.4	**12.7**	7.4	2.9
Operating income before amortization ("OIBA")	**71.2**	61.5	**268.8**	232.8	169.6

(1) Fiscal year 2008 contained only 39 weeks.

(2) Amortization of incentives paid to franchisees is applied against other revenues in the Consolidated Financial Statements.

Earnings (loss) before specific items or earnings (loss) per share before specific items

Earnings (loss) (or earnings (loss) per share) before specific items and earnings (or earnings per share) before specific items and share of loss in Rite Aid 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 Canadian GAAP measures, and that the above-mentioned non-GAAP measures provide investors with measures 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 Canadian GAAP and are not necessarily comparable to similar measures presented by other companies and therefore should not be considered in isolation.

Net earnings (loss) and net earnings (loss) per share are reconciled hereunder to earnings (loss) (and earnings (loss) per share) before specific items and earnings (and earnings per share) before specific items and share of loss in Rite Aid. All amounts are net of income taxes when applicable.

(unaudited, in millions of dollars, except per share amounts)	**Q4-2010**	Q4-2009	**Fiscal year 2010**	Fiscal year 2009	Fiscal year 2008 [1]
	$	$	**$**	$	$
Net earnings (loss)	**42.8**	(733.6)	**112.6**	(1,192.1)	(251.4)
Unrealized foreign exchange losses (gains) on monetary items	**-**	(0.1)	**(0.5)**	0.7	(0.1)
Adjustment to gain on sale of the retail sales segment	**-**	-	**-**	-	3.5
Change in fair value of third party asset-backed commercial paper and related options of repayment	**0.1**	3.4	**(4.6)**	7.0	5.9
Earnings (loss) before specific items	**42.9**	(730.3)	**107.5**	(1,184.4)	(242.1)
Share of loss in Rite Aid	**-**	768.8	**55.2**	1,327.0	349.1
Earnings before specific items and share of loss in Rite Aid	**42.9**	38.5	**162.7**	142.6	107.0
Net earnings (loss) per share	**0.18**	(3.11)	**0.48**	(4.92)	(0.98)
Unrealized foreign exchange losses (gains) on monetary items	**-**	-	**-**	-	-
Adjustment to gain on sale of the retail sales segment	**-**	-	**-**	-	0.01
Change in fair value of third party asset-backed commercial paper and related options of repayment	**-**	0.01	**(0.02)**	0.03	0.02
Earnings (loss) per share before specific items	**0.18**	(3.10)	**0.46**	(4.89)	(0.95)
Share of loss in Rite Aid	**-**	3.26	**0.23**	5.48	1.35
Earnings per share before specific items and share of loss in Rite Aid	**0.18**	0.16	**0.69**	0.59	0.40

[1] Fiscal year 2008 contained only 39 weeks.

RESULTS OF THE FISCAL YEARS 2010, 2009 AND 2008

SELECTED CONSOLIDATED FINANCIAL INFORMATION FOR FISCAL YEARS 2010, 2009 AND 2008

The following table presents selected financial information and operating results for the fiscal years ended February 27, 2010, February 28, 2009 and March 1, 2008. Some of the figures provided for the previous period have been reclassified to conform to the presentation adopted for the current period.

(in millions of dollars, except per share amounts)	**Fiscal year 2010**	Fiscal year 2009	Fiscal year 2008 [1]
	$	$	$
Sales	**2,298.4**	2,131.9	1,507.6
Other revenues [2]	**244.7**	237.4	168.7
Revenues [3]	**2,543.1**	2,369.3	1,676.3
Gross profit	**229.5**	191.6	137.6
Operating income before amortization ("OIBA") [4]	**268.8**	232.8	169.6
Share of loss in Rite Aid	**55.2**	1,327.0	393.3
Net earnings (loss)	**112.6**	(1,192.1)	(251.4)
Per share	**0.48**	(4.92)	(0.98)
Earnings before specific items and share of loss in Rite Aid [4]	**162.7**	142.6	107.0
Per share	**0.69**	0.59	0.40
Cash dividend per share	**0.18**	0.16	0.12
Total asset	**984.9**	1,014.4	1,949.3
Long-term debt [5]	**199.9**	275.7	171.5

(1) Fiscal year 2008 contained only 39 weeks.
(2) Including amortization of incentives paid to franchisees.
(3) Revenues include sales and other revenues.
(4) See the "Non-GAAP financial measures" section.
(5) Long-term debt includes the short term portion of debt.

COMPARISON OF THE FISCAL YEARS ENDED FEBRUARY 27, 2010, FEBRUARY 28, 2009, AND MARCH 1, 2008

Please note that results from fiscal year 2009 compared with the results from fiscal year 2008 show significant increases. These increases are mainly due to the fact that fiscal year 2008 only had three quarters because of the Company's change in fiscal year-end date following the disposal of its US operations to Rite Aid on June 4, 2007. Therefore, it was not deemed relevant to comment each fluctuation between both fiscal years in this MD&A.

Readers are referred to the MD&A’s section of the 2009 Annual Report for more information and for an explanation of the fluctuations between the 2009 and 2008 fiscal years.

Revenues

Revenues, which include sales and other revenues, amounted to $2.543 billion during the fiscal year ended February 27, 2010, compared with $2.369 billion during the fiscal year ended February 28, 2009, an increase of 7.3%. This increase is attributable to the overall market growth and the expansion of the Jean Coutu Group network of franchised stores. Furthermore, the consumers’ cautiousness in view of the A(H1N1) flu contributed to the increase of the over-the-counter drug sales.

Other revenues amounted to $244.7 million during the fiscal year 2010 compared with $237.4 million during the fiscal year 2009. This increase is attributable to the increase in rental revenues and other services related to the expansion of the Jean Coutu Group network of franchised stores.

Gross profit
Gross profit from the fiscal year 2010 amounted to $229.5 million compared with $191.6 million during the fiscal year 2009, an increase of 19.8%. For the fiscal year 2010, gross margin, calculated as percentage of sales, was 10% compared with 9% during the fiscal year 2009. Increase in gross margin is mainly attributable to the additional gross margin generated by the Pro Doc operations.

During fiscal year 2009, the Company changed its method of invoicing certain vendor revenues, going from a method based mainly on expense reimbursement to one based on volume purchased. Consequently, these revenues are now recorded as a reduction of the cost of goods sold account.

OIBA
OIBA increased by $36.0 million and amounted to $268.8 million for the fiscal year 2010 compared with $232.8 million for the fiscal year 2009. The increase is mostly attributable to a strong operational performance in the franchising activities and of the subsidiary Pro Doc. Gross sales of Pro Doc products, net of intercompany's eliminations, amounted to $97.5 million in the fiscal year 2010 compared with $30.9 million in the fiscal year 2009. OIBA as a percentage of revenues ended the fiscal year 2010 at 10.6% compared with 9.8% for the previous fiscal year.

Financing (revenues) expenses
Financing revenues amounted to $4.2 million during the fiscal year 2010, compared with financing expenses of $12.6 million recorded during the fiscal year 2009. Financial revenues of the fiscal year 2010 are mainly attributable to the recording of a gain in value with respect to the third party asset-backed commercial paper. Financial expenses of the fiscal year 2009 were related to the debt incurred during fiscal years 2008 and 2009 to allow the Company to fund its normal course issuer bid program, as well as the recording of a loss in value with respect to the third party asset-backed commercial paper. Readers are referred to the "Third party asset-backed commercial paper" section of this MD&A for more information on financial revenues for fiscal year 2010.

Share of loss in Rite Aid, a company subject to significant influence
The share of loss in Rite Aid included in the Company's earnings amounted to $55.2 million ($0.23 per share) during fiscal year 2010 compared with 1.327 billion ($5.48 per share) during the previous fiscal year. This is a non-cash charge.

Readers are referred to the "Information on Rite Aid" section of this MD&A for more information.

Income tax expense
The income tax expense amounted to $74.9 million during the fiscal year 2010 compared with $61.8 million during the fiscal year 2009.

Net earnings (loss)
The net earnings amounted to $112.6 million ($0.48 per share) during the fiscal year ended February 27, 2010, compared with a net loss of $1.192 billion ($4.92 per share) for the fiscal year ended February 28, 2009. The net loss for the fiscal year 2009 is due to the recording of the share of loss in Rite Aid.

Earnings before specific items and share of loss in Rite Aid amounted to $162.7 million ($0.69 per share) during the fiscal year 2010 compared with $142.6 million ($0.59 per share) during the fiscal year 2009, an increase of 14.1%.

INFORMATION ON THE JEAN COUTU GROUP NETWORK OF FRANCHISED STORES

Within the franchising segment, the Company carries on the franchising activity under the banners of "PJC Jean Coutu", "PJC Clinique", "PJC Santé" and "PJC Santé Beauté", operates two distribution centres and coordinates several other services for the benefit of its franchisees. These services comprise centralized purchasing, distribution, marketing, training, human resources, management, operational consulting and information systems, as well as a private label program. The PJC franchisees own and manage their stores and are responsible for merchandising and financing their inventory. They must provision their store from our distribution centres, provided that the products ordered are available and priced competitively to those of other suppliers. The financial results of the PJC franchised stores are not included in the Company's Consolidated Financial Statements.

Network performance *(unaudited)*	**Q4-2010**	Q4-2009	**Fiscal year 2010**	Fiscal year 2009
Retail sales *(in millions of dollars)*	**$951.3**	$898.8	**$3,637.2**	$3,400.5
Retail sales per square foot *(in dollars)* (1)	**$1,374**	$1,366		
Retail sales *(in percentage)*				
Pharmacy, prescription drugs	**62%**	61%	**63%**	62%
Front-end, non-prescription drugs	**9%**	9%	**9%**	9%
Front-end, general merchandise	**29%**	30%	**28%**	29%
Retail sales growth *(in percentage)*				
Total stores				
Total	**5.8%**	6.4%	**7.0%**	5.4%
Pharmacy	**6.7%**	7.5%	**8.3%**	7.1%
Front-end	**4.4%**	5.2%	**5.1%**	2.7%
Same store (2)				
Total	**3.8%**	4.2%	**4.5%**	3.8%
Pharmacy	**4.8%**	4.9%	**5.7%**	5.4%
Front-end	**2.2%**	3.0%	**2.8%**	1.2%

(1) Annual store sales are divided by average square footage.

(2) Same store means a store that operated throughout the current fiscal year and previous fiscal year.

Retail sales increase reflects overall market growth and openings, renovations and relocations of PJC network of franchised stores. Furthermore, the consumers' cautiousness in view of the A(H1N1) flu contributed to the increase of the over-the-counter drug sales.

During the fiscal year 2010, on a same-store basis, PJC network retail sales grew 4.5%, pharmacy sales gained 5.7% and front-end sales increased by 2.8% compared with the same period last year. During the fiscal year 2010, the sales of non-prescription drugs, which represented 9% of total retail sales, increased by 8.1%, whereas these sales had increased by 4.1% during previous fiscal year.

PJC network of franchised stores development

During the fiscal year 2010, there were 22 store openings, including 5 relocations, in the PJC network of franchised stores, compared with 33 openings, including 11 relocations, during the fiscal year 2009.

QUARTERLY RESULTS

SELECTED CONSOLIDATED FINANCIAL INFORMATION FOR FISCAL QUARTERS ENDED FEBRUARY 27, 2010 AND FEBRUARY 28, 2009

The following table presents selected data and operating results for the quarters ended February 27, 2010 and February 28, 2009. Some of the figures provided for the previous period have been reclassified to conform to the presentation adopted for the current period.

(unaudited, in millions of dollars, except per share amounts)	**Q4-2010**	Q4-2009
	$	$
Sales	**573.7**	543.2
Other revenues [(1)]	**63.3**	64.0
Revenues [(2)]	**637.0**	607.2
Gross profit	**59.8**	49.3
Operating income before amortization ("OIBA") [(3)]	**71.2**	61.5
Share of loss in Rite Aid	**-**	768.8
Net earnings (loss)	**42.8**	(733.6)
Per share	**0.18**	(3.11)
Earnings before specific items and share of loss in Rite Aid [(3)]	**42.9**	38.5
Per share	**0.18**	0.16

(1) Including amortization of incentives paid to franchisees.

(2) Revenues include sales and other revenues.

(3) See the "Non-GAAP financial measures" section.

COMPARISON OF THE CONSOLIDATED QUARTERS ENDED FEBRUARY 27, 2010 AND FEBRUARY 28, 2009

Revenues

Revenues, which include sales and other revenues, amounted to $637.0 million during the fourth quarter of fiscal year ended February 27, 2010 compared with $607.2 million during the fourth quarter of fiscal year ended February 28, 2009, an increase of 4.9%. This increase is attributable to the overall market growth and the expansion of the Jean Coutu Group network of franchised stores.

Other revenues amounted to $63.3 million during the fourth quarter of fiscal year 2010 compared with $64.0 million during the fourth quarter of fiscal year 2009. This slight decrease of other revenues is mainly attributable to the increase of amortization of incentives paid to franchisees.

Gross profit

Gross profit from the fourth quarter of fiscal year 2010 amounted to $59.8 million compared with $49.3 million during the fourth quarter of fiscal year 2009, an increase of 21.3%. For the fourth quarter of fiscal year 2010, gross margin, calculated as percentage of sales, was 10.4% compared with 9.1% during the fourth quarter of fiscal year 2009. Increase in gross margin is mainly attributable to the additional gross margin generated by the Pro Doc operations.

OIBA

OIBA increased by $9.7 million and amounted to $71.2 million for the fourth quarter of fiscal year 2010, while amounting to $61.5 million for the fourth quarter of fiscal year 2009. This increase is mostly attributable to a strong operational performance in the franchising activities and of the subsidiary Pro Doc. Gross sales of Pro Doc products, net of intercompany's eliminations, amounted to $28.9 million in the fourth quarter of fiscal year 2010 compared with $14.1 million in the fourth quarter of fiscal year 2009. OIBA as a percentage of revenues ended the fourth quarter of fiscal year 2010 at 11.2% compared with 10.1% for the fourth quarter of the previous fiscal year.

Financing expenses

Financing expenses amounted to $0.3 million during the fourth quarter of fiscal year 2010, compared with $4.7 million during the fourth quarter of fiscal year 2009. Financing expenses for the fourth quarter of fiscal year 2009 were related to the debt incurred during fiscal years 2008 and 2009 to allow the Company to fund its normal course issuer bid program, as well as the recording of a loss in value with respect to third party asset-backed commercial paper. Readers are referred to the "Third party asset-backed commercial paper" section of this MD&A for more information.

Share of loss in Rite Aid, a company subject to significant influence

No share of loss in Rite Aid was accounted in the Company's earnings during the fourth quarter of fiscal year 2010 compared with $768.8 million ($3.26 per share) during the fourth quarter of fiscal year 2009. This is a non-cash charge.

Readers are referred to the "Information on Rite Aid" section of this MD&A for more information.

Net earnings (loss)

The net earnings during the fourth quarter of fiscal year ended February 27, 2010 amounted to $42.8 million ($0.18 per share), compared with a net loss of $733.6 million ($3.11 per share) during the fourth quarter of fiscal year ended February 28, 2009.

Earnings before specific items and share of loss in Rite Aid amounted to $42.9 million ($0.18 per share) during the fourth quarter of fiscal year 2010, compared with $38.5 million ($0.16 per share) during the fourth quarter of fiscal year 2009.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION - UNAUDITED

(unaudited, in millions of dollars, except per share amounts)	**Q4-2010**	Q3-2010	Q2-2010	Q1-2010	Q4-2009	Q3-2009	Q2-2009	Q1-2009
	$	$	$	$	$	$	$	$
Revenues	**637.0**	678.1	608.7	619.3	607.2	620.3	567.5	574.3
Operating income before amortization ("OIBA") (1)	**71.2**	71.5	61.4	64.7	61.5	60.1	56.8	54.4
Share of loss in Rite Aid	**-**	-	24.3	30.9	768.8	431.7	73.1	53.4
Net earnings (loss)	**42.8**	44.6	14.9	10.3	(733.6)	(399.2)	(39.1)	(20.2)
Per share	**0.18**	0.19	0.07	0.04	(3.11)	(1.66)	(0.16)	(0.08)
Earnings before specific items and share of loss in Rite Aid (1)	**42.9**	44.2	37.1	38.5	38.5	36.7	34.2	33.2
Per share	**0.18**	0.19	0.16	0.16	0.16	0.15	0.14	0.13
Weighted average number of shares, diluted	**236.3**	236.2	236.2	236.0	236.0	240.0	245.1	248.3

(1) See the "Non-GAAP financial measures" section.

INFORMATION ON RITE AID

Investment in Rite Aid, a company subject to significant influence
The Company holds an equity interest of 28.4% (February 28, 2009 - 28.4%) in Rite Aid, one of United States leading drugstore chain, operating nearly 4,800 drugstores. The equity interest in Rite Aid represents an investment subject to significant influence, which is accounted for using the equity method since June 4, 2007, its acquisition date. On February 27, 2010, the market value of equity interest in Rite Aid was US$383.0 million (February 28, 2009 - US$70.6 million).

During the fiscal year ended February 28, 2009, the Company performed a comprehensive analysis related to its investment in Rite Aid and impaired it at its fair value. Consequently, the carrying value of the investment in Rite Aid was assessed at $58.3 million as at February 28, 2009. The Company used the closing market value of Rite Aid's common shares as of February 28, 2009 (US$0.28), adjusted by a liquidity discount to assess the fair value of its investment and record the other-than-temporary loss in value. This loss in value is included in the share of loss in Rite Aid, a company subject to significant influence account in the consolidated statement of earnings of the Company for the year ended February 28, 2009.

During the fiscal year ended February 27, 2010, the Company's share of loss in Rite Aid exceeded the carrying value of its investment. As required by Canadian GAAP, the Company reduced the carrying value of its investment down to zero and ceased recording its share of loss in Rite Aid exceeding the carrying value of its investment, since the Company has not guaranteed obligations of Rite Aid and is not committed to provide it with further financial support. For the fiscal year ended February 27, 2010, the Company's unrecognized share of loss in Rite Aid amounted to $89.4 million (none in 2009).

Selected Financial Information - Summary Consolidated Balance Sheets – Rite Aid

(in millions of US dollars and under US GAAP)	**February 27, 2010**	February 28,2009
	$	$
Current assets	**4,508.7**	4,364.9
Property, plant and equipment, net	**2,293.1**	2,587.4
Other intangibles, net	**823.1**	1,017.0
Other assets	**425.0**	357.2
Total assets	**8,049.9**	8,326.5
Current liabilities	**2,175.7**	2,302.4
Long-term debt	**6,319.4**	5,971.0
Other long-term liabilities	**1,228.4**	1,252.8
Stockholders' deficit	**(1,673.6)**	(1,199.7)
Total liabilities and stockholders' equity	**8,049.9**	8,326.5

Some of this information would have been different if Rite Aid had used the same accounting principles as the Jean Coutu Group, and had prepared its consolidated financial statements using the Canadian GAAP. The differences are primarily due to the fact that Rite Aid uses the last in, first out method to evaluate its inventory, whereas the Jean Coutu Group uses the first in, first out method.

The following table presents selected information from the Rite Aid balance sheet using the Canadian GAAP:

(unaudited, in millions of US dollars)	**February 27, 2010**	February 28, 2009
	$	$
Current assets	**5,339.8**	5,111.4
Current liabilities	**2,115.8**	2,232.3
Stockholders' deficit	**(790.9)**	(389.3)

CONSOLIDATED STATEMENTS OF OPERATIONS OF RITE AID FOR THE FISCAL YEARS AND QUARTERS ENDED FEBRUARY 27, 2010 AND FEBRUARY 28, 2009

(in millions of US dollars, except per share amounts and under US GAAP)	**Q4-2010**[(1)]	Q4-2009[(1)]	**Fiscal year 2010**	Fiscal year 2009
	$	$	**$**	$
Revenues	**6,463.8**	6,707.6	**25,669.2**	26,289.3
Costs and expenses				
Cost of goods sold	**4,788.4**	4,983.9	**18,845.0**	19,253.6
Selling, general and administrative expenses	**1,641.6**	1,699.9	**6,603.4**	6,985.4
Lease termination and impairment charges	**77.2**	104.0	**208.0**	293.7
Goodwill depreciation	**-**	1,810.2	**-**	1,810.2
Interest expense	**141.7**	114.2	**515.8**	477.6
Loss on debt modifications and retirements, net	**-**	-	**1.0**	39.9
(Gain) loss on sale of assets, net	**1.5**	(0.4)	**(24.1)**	11.6
	6,650.4	8,711.8	**26,149.1**	28,872.0
Loss from continuing operations before income taxes	**(186.6)**	(2,004.2)	**(479.9)**	(2,582.7)
Income tax expense	**21.8**	289.4	**26.8**	329.3
Net loss from continuing operations	**(208.4)**	(2,293.6)	**(506.7)**	(2,912.0)
Loss from discontinued operations	**-**	-	**-**	(3.4)
Net loss	**(208.4)**	(2,293.6)	**(506.7)**	(2,915.4)
Basic and diluted loss per share	**(0.24)**	(2.67)	**(0.59)**	(3.49)

(1) Quarterly financial information are unaudited.

Some of this information would have been different if Rite Aid had used the same accounting principles as the Jean Coutu Group, and had prepared its consolidated financial statements using the Canadian GAAP. The differences are primarily due to the fact that Rite Aid uses the last in, first out method to evaluate its inventory, whereas the Jean Coutu Group uses the first in, first out method.

The following table presents selected information from the Rite Aid statements of operations using the Canadian GAAP:

(unaudited, in millions of US dollars)	**Q4-2010**	Q4-2009	**Fiscal year 2010**	Fiscal year 2009
	$	**$**	**$**	**$**
Cost of goods sold	**4,748.1**	4,890.0	**18,760.4**	19,069.8
Loss from continuing operations before income taxes	**(146.8)**	(1,911.0)	**(397.2)**	(2,400.4)
Net loss	**(168.6)**	(1,969.7)	**(424.0)**	(2,502.3)

The Rite Aid selected financial information above is derived from their press release of March 31, 2010, for the 13- and 52-week periods ended February 27, 2010. In addition to information in Rite Aid's public disclosure documents, readers are referred to their website at www.riteaid.com. Readers are also referred to Note 7 of the Company's Interim Consolidated Financial Statements for the fourth quarter and the fiscal year 2010 for further information on its investment in Rite Aid.

LIQUIDITY

The Company's cash flows are generated by: i) merchandise sales and rental revenues from PJC franchised stores, ii) the collection of royalties from PJC franchisees and iii) 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 real estate investments, iv) to finance capital expenditures incurred to renovate and open stores and replace equipment and v) for debt service. 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.

SELECTED CONSOLIDATED INFORMATION ON LIQUIDITY

The following table presents selected information from the consolidated statements of cash flows for the fiscal years ended February 27, 2010 and February 28, 2009:

(in millions of dollars)	**Fiscal year 2010**	Fiscal year 2009
	$	$
Cash flow provided by operating activities	**202.8**	146.6
Cash flow used in investing activities	**(79.9)**	(117.1)
Cash flow used in financing activities	**(115.0)**	(26.7)

COMPARISON OF THE CONSOLIDATED INFORMATION ON LIQUIDITY FOR THE FISCAL YEARS ENDED FEBRUARY 27, 2010 AND FEBRUARY 28, 2009

Cash flow from operating activities
Cash flow provided by operating activities amounted to $202.8 million during the fiscal year 2010 compared with $146.6 million during the fiscal year 2009. Non-cash items include an amount of $55.2 million for the share of loss in Rite Aid recorded during fiscal year 2010 compared with the share of loss in Rite Aid of $1.327 billion recorded during fiscal year 2009. Readers are referred to Note 22 of the Consolidated Financial Statements of fiscal year 2010 for a listing of the net changes in non-cash operating asset and liability items.

Cash flow from investing activities
Cash flow used in investing activities amounted to $79.9 million during the fiscal year 2010 compared with $117.1 million during the fiscal year 2009. During the fiscal year 2010, $46.9 million was used to acquire capital assets compared with $49.2 million during the previous fiscal year. During the fiscal year 2010, $27.2 million was used to acquire other long-term assets compared with $65.3 million during the previous fiscal year. During the fiscal year 2010, 22 new stores were opened in the PJC network of franchised stores, including 5 relocations, and 41 stores were expanded or renovated.

Cash flow from financing activities
During the fiscal year 2010, the Company used $115.0 million for its financing activities compared with $26.7 million during the fiscal year 2009. During the fiscal year 2010, $69.8 million were used to reimburse the Company's revolving credit facilities compared with the use of $105.5 million of these funds during the fiscal year 2009. Furthermore, the Company repaid an amount of $5.4 million on its long-term debt during the fiscal year 2010. During fiscal year 2009, $91.4 million was used to redeem 12.3 million outstanding Class A subordinated voting shares. The Company paid a quarterly dividend of $0.045 per Class A subordinate voting share and Class B share during the four quarters of fiscal year 2010 for a total of $42.5 million (annualized dividend of $0.18 per share). The Company had paid a quarterly dividend of $0.04 per Class A subordinate voting share and Class B share during the four quarters of fiscal year 2009 for a total of $38.7 million (annualized dividend of $0.16 per share).

THIRD PARTY ASSET-BACKED COMMERCIAL PAPER

On February 27, 2010, the Company held third party asset-backed commercial paper ("ABCP") of a nominal amount of $31.7 million (of which $0.5 million is denominated in US dollars). As at February 27, 2010, notional values of Master Asset Vehicles ("MAV") II and MAV III notes are $24.8 million (A1 - $10.4, A2 - $10.3, B - $1.9, C - $0.7 and $1.5 of ineligible assets tracking notes) and $6.9 million ($0.8 million of traditional assets tracking notes and $6.1 million of ineligible assets tracking notes), respectively.

These ABCP are accounted for at their fair value, which was $19.8 million as of February 27, 2010 ($21.8 million as at February 28, 2009). As at February 27, 2010, the total loss in value recorded was $11.9 million representing 38% of the ABCP's nominal amount at that date. For the fiscal year ended February 27, 2010, the Company recorded a gain in value of its ABCP of $1.7 million (loss in value of $7.0 million in 2009), received $3.5 million in principal repayments on some of its ABCP (none in 2009) and wrote off an amount of $0.5 million (none in 2009) related to capital losses on ABCP. The change in balances of ABCP is presented in Note 21c) of the Company's Consolidated Financial Statements.

The Company assessed its ABCP as at February 27, 2010. Since there is no active market for ABCP, the Company has estimated their fair value by discounting the expected cash flows at yields comparable to prevailing market yields and credit spreads available for securities with similar characteristics to the restructured notes and other market inputs reflecting the Company's best available information.

This estimate of the fair value of the ABCP is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in assumptions could affect the value of ABCP securities in the next fiscal year. The resolution of these uncertainties could be such that the ultimate fair value of these investments may vary from management's current best estimate. The Company tested the sensitivity of its ABCP valuation model, and a 100 basis point increase in the discount rate would result in a 4.5% or $0.9 million pre-tax decrease in the fair value of these investments.

The Company has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of the ABCP liquidity issue.

CAPITAL STOCK

In July 2008, the Company announced its intention to purchase for cancellation up to 12,311,000 of its outstanding Class A subordinate voting shares. All of these shares were purchased and cancelled during the fiscal year ended February 28, 2009 at an average price of $7.42 per share for a total consideration of $91.4 million, including fees. An amount of $24.1 million representing the excess of the purchase price over the carrying value of the acquired shares was deducted from retained earnings. Purchases were made through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

The Company has not redeemed Class A subordinate voting shares during the fiscal year ended February 27, 2010.

As at February 27, 2010 and April 27, 2010, the total number of Class A subordinate voting shares (TSX: PJC A) issued and outstanding was 118.9 million (end of fiscal year 2009 - 118.6 million), and the number of Class B shares amounted to 117.4 million (end of fiscal year 2009 – 117.4 million). As at February 27, 2010 and April 27, 2010, the total number of outstanding shares was 236.3 million (end of fiscal year 2009 – 236.0 million). Furthermore, as at April 27, 2010, 1.9 million of Jean Coutu Class A subordinate voting shares stock options were outstanding.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents a summary of the Company's main contractual cash obligations as at February 27, 2010, for the fiscal years indicated under our long-term debt, long-term leases, inventories, services and capital assets commitments:

Payments due during fiscal years *(in millions of dollars)*	2011	2012-2013	2014-2015	2016 and thereafter	Total
	$	$	$	$	$
Long-term debt	-	199.9	-	-	199.9
Operating lease obligations	40.0	73.0	64.9	237.9	415.8
Other commercial commitments	33.2	4.8	0.7	0.6	39.3
Total	73.2	277.7	65.6	238.5	655.0

The Company also has accrued benefit obligations of $17.1 million regarding its defined benefit pension plans, without a fixed maturity date.

Long-term debt
As at February 27, 2010, the long-term debt amounted to $199.9 million, borrowed under its revolving credit facility. As at February 28, 2009, the long-term debt, including the short-term portion, amounted to $275.7 million and included an amount of $269.8 million borrowed under its revolving credit facility. For further details, readers are referred to Note 11 of fiscal year 2010 Consolidated Financial Statements.

As at February 27, 2010, $316.2 million of the $516.5 million available from the revolving facility was still unused. As at February 28, 2009, $229.7 million of the $500 million available from the revolving facility was still unused. The Company does not expect any liquidity issues. The Company has operating liquidities and has access to credit facilities in order to finance its projects. As at February 27, 2010, all of our bank covenants were respected.

Operating lease obligations
The Company leases a substantial portion of its buildings 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, maturing up to the year 2047, amount to $415.8 million and are mostly in connection with leased buildings. The Company has also signed lease and sublease agreements under which it will receive minimum payments totalling $440.8 million until 2058. These payments are not included in the table of contractual obligations above.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

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

The Company has not taken any specific action to cover its exposure to interest rate risk. Depending on the interest rate environment, the Company may, in the future, use derivative financial instruments or other interest rate management vehicles.

Guarantees and buyback agreements
On June 4, 2007, the Company sold its US Operations to Rite Aid. As part of this transaction, the Company agreed to enter into certain customary indemnification obligations in favour of the purchaser in case of eventual breach of representations or warranties stipulated in the stock purchase agreement. Those representations or warranties refer to issues such as taxes and other indemnification obligations related to facts, circumstances or conditions in existence prior to June 4, 2007 with respect to the stock purchase agreement and other related agreements entered into with J.C. Penney Company, Inc. on July 31, 2004. Some of the indemnification guarantees are not limited in time. In addition, certain portions of the Company's indemnification guarantees are capped at US$450,000,000, while other provisions are not subject to such a limit.

The Internal Revenue Service ("IRS") issued a report following the completion of the tax audit for the fiscal years 2004 and 2005 of the US Operations sold to Rite Aid. The Company started the appeal process of these audit results. The IRS began the audit of the fiscal years 2006 and 2007, but has not completed it yet. Although the final outcome of these audits cannot be determined with certainty, the Company believes that its provision related to the tax indemnification that could result from these audits is sufficient. The Company is unable to estimate potential liability for the other 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 guaranteed the reimbursement of certain bank loans contracted by franchisees for a maximum amount of $2.4 million as at February 27, 2010 (February 28, 2009 - $2.7 million). Most of those guarantees apply to loans with a maturity of one year. Those loans are also personally guaranteed by the franchisees.

The Company has also entered into commitments with financial institutions to purchase the equipment and inventories of certain of its franchisees under certain conditions. As at February 27, 2010, the maximum value of the equipment and inventories buyback agreements was $61.1 million and $116.3 million respectively. The Company has not paid any indemnification related to these commitments and has not recorded any liability regarding these guarantees in the Consolidated Financial Statements during the fourth quarter and fiscal year ended February 27, 2010.

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. The Company limits its exposure to some risk of claims related to its activities by subscribing to insurance policies.

Also, during the fiscal year 2009, the Company was named as a defendant in an action instituted against it by one of its franchisees. The plaintiff claims that the clause of its franchise agreement regarding the payment of royalties on the sale of medications of its pharmacies would be illegal because it would lead him to contravene an article of the Pharmacists' Code of ethics. The Company contests the grounds upon which this action is based and intends to defend its position. However, due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of this lawsuit or to determine the amount of any potential losses, if any. No provision for contingent loss has been recorded in the Company's consolidated financial statements.

FOREIGN EXCHANGE RISK MANAGEMENT

The financial information from Rite Aid, whose functional currency is not the Canadian dollar, is 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 accumulated other comprehensive income.

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 included in the consolidated statement of earnings, unless subject to hedge accounting.

RELATED PARTY TRANSACTIONS

Franchising activities include transactions with enterprises controlled by an executive with significant influence on the Company. As at February 27, 2010, Mr. François J. Coutu, President and Chief Executive Officer of the Company, held a participation in 2 PJC franchises (February 28, 2009 – 3 PJC franchises). The transactions between the Company and these enterprises are carried out in the normal course of business and are measured at the exchange amount. Readers are referred to Note 20 of the Consolidated Financial Statements for further details on those transactions.

CHANGES IN ACCOUNTING POLICIES

There were several changes in accounting policies that may have a material impact on the Company's Consolidated Financial Statements as noted herein.

Fiscal year 2010

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, and are presented net of outstanding cheques. When the amount of outstanding cheques is greater than the amount of cash and cash equivalents, the net amount is presented as bank overdraft on the Company's consolidated balance sheet. Accordingly, prior year figures have been reclassified to conform with this accounting policy.

Goodwill and intangible assets
In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062**.** The Company has adopted this Section as of March 1, 2009. The adoption of this new Section had no material impact on the Company's Consolidated Financial Statements.

Financial instruments - Disclosures
In June 2009, the CICA amended Section 3862, "Financial Instruments - Disclosures", to include additional disclosures relating to the assessment of financial instruments' fair value and liquidity risk. These amendments will be effective for annual financial statements of the fiscal year ending after September 30, 2009. Accordingly, the Company has adopted the additional disclosures in its annual financial statements for the fiscal year ending February 27, 2010. Additional information are presented in Note 21, "Financial instruments disclosure".

Fiscal year 2009

Capital disclosures
In December 2006, the CICA published Section 1535, "Capital Disclosures". This new standard establishes disclosure requirements concerning capital such as: qualitative information about an entity's objectives, policies and processes for managing capital; quantitative data about what it regards as capital; whether the entity has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The Company has adopted this Section as of March 2, 2008. Additional information are presented in Note 15, "Capital disclosures".

Recent pronouncements

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new accounting standards: Section 1582, "Business combinations", Section 1601, "Consolidated financial statements", and Section 1602, "Non-controlling interests". These new standards will be effective for interim and annual reporting periods beginning on or after January 1, 2011. Early adoption of these Sections is permitted as long as they are adopted simultaneously. These new accounting standards are intended to harmonize Canadian accounting standards with IFRS. The Company will adopt these Sections in the fiscal year beginning February 27, 2011.

Section 1582 replaces Section 1581 of the same name and establishes standards for the accounting of business combinations. It applies prospectively to business combinations with acquisition dates on or after the first annual reporting period beginning on or after January 1, 2011. Therefore, this Section would have an impact on the Company's consolidated financial statements if a business combination occurs after its adoption.

Sections 1601 and 1602 together replace section 1600 "Consolidated financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of these Sections should not have a significant impact on the Company's consolidated financial statements.

International Financial Reporting Standards

In February 2008, the Accounting Standards Board of Canada announced that accounting standards in Canada, as used by public companies, will converge with IFRS. The Company's changeover date from current Canadian GAAP to IFRS is for interim and annual financial statements of fiscal year ending March 3, 2012. From this fiscal year, the Company will prepare both the current and comparative financial information using IFRS. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

The Company's IFRS convergence project includes three steps:

- Planning and diagnosis: The Company has completed the planning and diagnosis activities, which included the development of an IFRS convergence plan, the establishment of a steering committee comprised of senior management and a high level assessment of the differences between current Canadian GAAP and IFRS that could have a material impact for the Company. Also, the Company retained the services of an independent advisor to facilitate the management of the project and to assist employees with technical matters and training.

- Analysis and design of accounting policies: The Company has substantially completed the analysis and design of accounting policies stage, which consisted of a detailed assessment of accounting policies or disclosure differences between Canadian GAAP and IFRS. For the differences identified, the Company establishes the impact of these differences on its accounting policies, information systems, processes and controls.

- Implementation and execution: The Company began to implement the action plan developed in the analysis and design of accounting policies stage which involves the creation of new accounts and financial statement models, together with changes in systems and process. Accounting policies, including transitional exemptions under the provisions of IFRS 1 "First time adoption of IFRS", will also be approved during this stage. This stage will be completed at the end of the Company's fiscal year ended February 26, 2011.

Based on the analysis performed, a list of the major differences between Canadian GAAP and IFRS that are likely to impact the Company have been established. Notwithstanding the above, the proposed projects of the International Accounting Standards Board and the International Financial Reporting Interpretations Committee are likely to potentially modify some of the actual IFRS requirements which might therefore ultimately impact the following identified major differences.

Here are the major differences that are likely to impact the Company and some preliminary conclusions:

Property and equipment
Under IFRS, after initial recognition, it is possible to measure the property and equipment using the cost model or the revaluation model. The revaluation model is not allowed under Canadian GAAP. The Company will continue to use the cost model.

Under IFRS, property and equipment have to be amortized based on their components. Under Canadian GAAP, component identification rules are less stringent. The Company identified new components to be amortized separately under IFRS for buildings held for leasing. The carrying value of these property and equipment and the corresponding amortization expense will be different.

Investment property
Under Canadian GAAP, there is no definition and specific standard for investment property. Some of the buildings held for leasing of the Company meet the definition of investment property. Under IFRS, investment property may be valued at the cost model or using a fair value. The buildings affected by this difference are currently being evaluated by the cost model in Canadian GAAP. The Company will continue to use the cost model.

Employee benefits
Under Canadian GAAP, past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of active employees expected to benefit from the amendment. Under IFRS, these costs are amortized on a straight-line basis over the average period until the benefits become vested. To the extent that the amended benefits are already vested, past service costs are recognized immediately. The cost of past service vested at the transition date will be recognized in retained earnings in the opening balance sheets.

IAS 19, Employee Benefits, allows certain actuarial gains and losses to be either deferred and amortized, subject to certain provisions (corridor approach), or immediately recognized through equity. The Company will recognize its actuarial gains and losses immediately through equity.

Sale and leaseback transactions
Under Canadian GAAP, in a sale and leaseback transaction, if the seller-lessee retains more than a minor portion but less than substantially all of the property, the amount included in the determination of net income immediately is measured under certain criteria. Under IFRS, if a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately.

In its transitional balance sheet, the Company has, in the other long-term liabilities, a deferred gain related to sale and leaseback transactions that would have been recognized immediately as a gain under IFRS. Consequently, this deferred gain will be recognized in retained earnings in the opening balance sheet at transition date.

Impairment of assets
Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36, "Impairment of Assets", uses a one-step approach testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may potentially result in more write-down where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis.

IFRS also requires the reversal of an impairment loss when the recoverable amount is higher than the carrying value (by no more than what the depreciated amount of the asset would have been had the impairment not occurred) unlike Canadian GAAP, which does not permit reversals.

Also, under Canadian GAAP, impairment testing on goodwill is done by reporting unit. Under IAS 36, impairment testing is performed at the cash generating unit level. A cash generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

IFRS requires the Company to conduct an asset impairment test at the date of adoption of IFRS if indicators of impairment exist except for goodwill where a test is mandatory. As a result, the Company cannot quantify the impact of impairment adjustments, if any, at the present time. However, the Company has identified its cash generating units and has determined that this change would not materially impact the Company's basis for evaluating the impairment of its goodwill.

Stock-based compensation
Under Canadian GAAP, gradually vested stock options are considered as a single award. Under IFRS, each tranche is to be considered a separate award. The stock-based compensation expense will have to be recognized over the expected term of each vested tranche. The expected impact on this expense is not significant for the Company.

Key transitional exemptions under the provisions of IFRS 1 "First time adoption of IFRS":

1. **Business combinations** – IFRS 3, Business Combinations, may be applied retrospectively or prospectively. The retrospective basis would require restatement of some or all of the business combinations that occurred prior to the transition date. The Company will avail itself of this exemption and will not restate its business acquisitions prior to the transition date.

2. **Fair value as deemed cost** – IFRS 1 provides a choice between measuring property and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. The Company have decided not to avail itself of this exemption.

3. **Employee benefits** – IAS 19, Employee Benefits, allows certain actuarial gains and losses to be either deferred and amortized, subject to certain provisions (corridor approach), or immediately recognized through equity. Retrospective application of the corridor approach for recognition of actuarial gains and losses in accordance with IAS 19 would require the Company to determine actuarial gains and losses from the date the benefit plans were established. At the transition date, the Company will recognize all its cumulative actuarial gains and losses in equity.

4. **Stock-based compensation** – An entity may apply IFRS 2, Share-based Payment, only to equity instruments unvested at its transition date. The Company will elect to not apply IFRS 2 to equity instruments that were granted and vested before the date of transition to IFRS.

5. **Cumulative translation differences –** Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, the Effects of Changes in Foreign Exchange Rates, from the date a subsidiary or associate was formed or acquired. IFRS 1 allows cumulative translation gains and losses to be reset to zero at the transition date. The Company will elect to reset all cumulative translation gains and losses to zero in opening retained earnings at the transition date.

Other key analyses are in progress or will be undertaken shortly. Consequently, preliminary findings do not appear in the above list of major differences. Any choices made or variances identified will be communicated once the analyses have been completed.

Although activities are processing according to convergence plan, the quantitative impact on these differences and elections on the Company's future financial position and results of operations is not reasonably determinable or estimable.

In addition to the sections noted above, there are generally more extensive presentation and disclosure requirements under IFRS compared to Canadian GAAP. These have been noted in the detailed analysis and are being added to draft IFRS financial statements.

RISKS AND UNCERTAINTIES

In order to protect and increase shareholders' value, the Company uses 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, network of franchised stores performance as well as customer service quality, and the impact on our reputation and our corporate image;
- We have evaluated our tolerance to risk before establishing the controls necessary to reach our goals.

Laws and regulations
We are exposed to risks related to the regulated nature of some of our activities (mainly the manufacturing and distribution of drugs) and the activities of our pharmacist/owner franchisees, as well as risks related to other laws and regulations in the provinces where PJC franchisees operate.

Compliance is an issue in a number of areas, including: laws and regulations governing pharmacy, laws and regulations on protecting personal information, laws and regulations governing the manufacturing, distribution and sale of drugs (including the ones governing the selling price of drugs), laws and regulations governing health insurance and drug insurance plans, laws and regulations regarding labour relations (labour standards, workplace safety, pay equity, etc.), laws and regulations for the protection of the environment, laws and regulations regarding consumer protection, laws and regulations governing product safety, approval and labelling (in particular for drugs, food and natural health products), tax laws, etc.

Any changes to laws and regulations or policies regarding the Company's activities could have a material adverse effect on its financial performance.

Some of these laws and regulations, such as those governing the selling price of prescription drugs and the drugs wholesalers' maximum margin are under provincial jurisdiction. As a result, changes made in one province could have an impact on the adoption or amendment of laws and regulations in other provinces.

On April 7, 2010, the province of Ontario announced its intention to reform its prescription drug plan. Readers are referred to the "Strategies and outlook" section of this MD&A for more information.

A large portion of the Company's revenue comes from the distribution of prescription drugs to its franchisees. The sale of these products is governed by a number of laws and regulations. Any change to these laws and regulations could have an important impact on the franchisees revenues as well as ours.

We have put processes in place in order to ensure follow-up of modifications to current laws and regulations, new laws and regulations as well as our compliance to them.

During fiscal year 2009, the Company was named as defendant in a lawsuit instituted by a franchisee. This risk is described in the "Contingencies" section of this MD&A.

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, all at competitive prices. The Company's inability to proactively fulfill these expectations could prove to have a negative effect on its competitive edge, therefore on its financial performance. The Company believes that its PJC network of franchised stores is well positioned to compete against other drugstore chains, as well as mass merchants, large supermarket chains and independent drugstores by concentrating on providing a high level of professional service and focusing on patient health and wellness. Our customers are attracted by the Company's pharmacy and other services offered through the PJC

network of franchised stores 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 370 franchised stores, our private label lines that are constantly evolving as well as our exclusive product lines and our distribution network. Processes are in place in order to ensure that our marketing concepts meet customer expectations. Pilot projects exist in order to evaluate the impact of changes on profitability and customer satisfaction. We have a very well known loyalty program, AIR MILES®, for which we have exclusivity in the pharmacy industry for the province of Québec. This customer reward program provides us with a competitive edge and has a positive impact on customer loyalty.

Development of the network of franchised stores
The successful implementation of the Company’s strategic plan depends on its ability to grow and improve its network of franchised stores through new store openings, store relocations, as well as renovation and expansion projects. Therefore, the Company expects to acquire independent pharmacies and other assets. The availability of suitable development locations and related purchase or lease terms for planned real estate projects may affect the Company’s ability to execute its growth plan to the extent that suitable locations, real estate and other opportunities are not available on reasonable commercial terms.

As franchisor, 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 retail operations counsellor to monitor store level activity and ensure that the Company's marketing strategy and development standards are followed. Furthermore, efficient communication links are maintained between the franchisor and the franchisees, notably through a "liaison committee", to ensure franchisees satisfaction as well as compliance with franchisor standards.

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

Our commercial activities subject us to risks related to defective products and to product handling. Procedures are 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. By nature, our experimentation and manufacturing activities of certain pharmaceutical products expose us to risks. The hazards associated with products, information or other security measures in relation to the products that we manufacture or sell could fail and result in unsafe conditions that may cause damages to consumers. We also have controls in place to ensure that our strict standards are respected for our private label lines of products, which are 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 customers. We use the best practices for the storage, physical safety and distribution of the products we sell. The Company carries insurance covering product liability.

Logistics / distribution
In order to deliver efficient and high quality service to our franchisees, the management of storage and distribution are critical processes. We operate two distribution centres, strategically located close to main highways in the provinces of Québec and Ontario. Many actions were initiated to ensure a continuous follow-up on distribution operations so that standards and rules are abided by. Surveys are conducted annually with our franchisees to evaluate performance. Time and motion studies are also completed when necessary to evaluate and improve our performance.

Pharmacy services

Because of the nature of our network of franchised stores and the professional activities of our franchisees, we are exposed to risks related to managing confidential information and possible professional errors by the pharmacist/owner franchisees or their pharmacist employees. 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. Among others, we have developed a skills development program for pharmacy employees (pharmacists and technicians), procedures for confidential information management as well as pharmacy department operation manuals. We also offer our pharmacist/owner franchisees ongoing support in complying with professional standards.

Financial reporting

The Company has an obligation to comply with securities laws concerning financial reporting and Generally Accepted Accounting Principles to ensure complete, accurate and timely issuance of financial disclosures and other material information disclosed to the public. To ensure that the Company fulfills its obligations and that it reduces risks related to erroneous or incomplete financial reporting, it has established a disclosure policy as well as internal financial disclosure procedures.

Efficiency of systems 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. It would have a direct impact on our sales, and 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 had access to a high-availability disaster recovery site. In fact, the Company has the necessary infrastructure to replicate all transactions, databases and applications essential to daily operations

Rite Aid investment

The market value of 252 million shares in Rite Aid, owned by the Jean Coutu Group with a book value of zero, could fluctuate with changes in the market and the American economy 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 an 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 contracted a significant debt in order to acquire the Brooks and Eckerd stores. The resulting obligations could substantially limit their capacity to execute their business strategy and adversely affect their ability to service debt.

Furthermore, since our Rite Aid shares are not registered, they cannot readily be 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.

We have the right to designate four directors on the Board of Directors of Rite Aid to look after our interests and have a certain influence on the making of important decisions. We monitor the evolution of the market share as well as the sales growth of Rite Aid in order to evaluate their competitive position.

Hiring, employee retention and organizational 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 network of franchised stores. We use effective programs in universities explaining the various advantages of joining our network. We use performance evaluation practices supervised by our human resources department. Our salary structure is regularly reviewed in order to ensure that we remain competitive on the market. We have a succession plan in place to ensure that we have well-identified resources for the key positions in the Company.

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 President and Chief Executive Officer (CEO) and the Senior Vice-President, Finance and Corporate Affairs (CFO), in a timely manner 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 at February 27, 2010, 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 properly designed and are effective.

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. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement presentation. 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 effectiveness of the Company's internal controls 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 as at February 27, 2010, internal controls over financial reporting were properly designed and were effective at a reasonable level of assurance to ensure the reliability of financial reporting and the disclosure of financial statements of the Company in accordance with Canadian GAAP. This evaluation takes into consideration the Company's financial disclosure policy.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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 February 27, 2010.

STRATEGIES AND OUTLOOK

With its operations and financial flexibility, the Company is very well positioned to capitalize on the growth in the drugstore retail industry. Demographic trends 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 maintain its growth in revenues through differentiation and quality of offering and service levels to its network of franchised stores, with a focus on sales growth, its real estate program and operating efficiency.

The management of the Company has been informed of the prescription drug reform proposed by the Minister of Health and Long-term Care in Ontario. Announced modifications include a change in the price of generic drugs as well as a decrease in the professional allowances paid to pharmacists by generic drug manufacturers. This reform has not yet been ratified by the Legislative Assembly of Ontario, and changes might be introduced before its adoption. Management does not believe that the proposed reform in Ontario will have a significant impact on the consolidated results of the Company.

Furthermore, the management of the Company has not been informed of the Quebec Ministry of Health and Social Service's intention regarding its drug policy following the adoption of this reform in Ontario. If measures similar to those proposed in Ontario were to be adopted in Quebec, the Company's consolidated results could be impacted.

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 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", the negatives of these terms, the variations of them or the use of other similar terms. Although the Company 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 list below 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, namely changes in the legislation or the regulatory environment as it relates to the sale of prescription drugs and the pharmacy exercise, the success of the Company's business model, changes in laws and regulations, or in their interpretations, changes to tax regulations and accounting pronouncements, the cyclical and seasonal variations in the industry in which we operate, the intensity of competitive activity in the industry in which we operate, the supplier and brand reputations, our equity interest in Rite Aid Corporation ("Rite Aid"), our ability to attract and retain pharmacists, labour disruptions, including possibly strikes and labour protests, 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 the MD&A for the fiscal year ended February 27, 2010. 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 any other reason, unless required by the applicable securities laws.

April 27, 2010

Management's report with respect to financial statements

The financial statements of The Jean Coutu Group (PJC) Inc. and the financial information contained in the annual report are the responsibility of management. The consolidated financial statements 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/ François J. Coutu	*/s/ André Belzile*
President and Chief Executive Officer	Senior Vice-President, Finances and Corporate Affairs

April 16, 2010

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 February 27, 2010 and February 28, 2009 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity 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 February 27, 2010 and February 28, 2009 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 LLP

April 16, 2010
Montreal, Quebec

[1] Chartered accountant auditor permit n° 19705

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of earnings

For the fiscal years ended February 27, 2010 and February 28, 2009	**2010**	2009
(in millions of Canadian dollars, unless otherwise noted)	**$**	$
Sales	**2,298.4**	2,131.9
Other revenues (Note 3)	**244.7**	237.4
	2,543.1	2,369.3
Operating expenses		
Cost of goods sold	**2,068.9**	1,940.3
General and operating expenses	**218.1**	203.6
Amortization of property and equipment	**17.6**	16.1
	2,304.6	2,160.0
Operating income	**238.5**	209.3
Financing expenses (revenues) (Note 4)	**(4.2)**	12.6
Earnings before the following items	**242.7**	196.7
Share of loss in Rite Aid, a company subject to significant influence (Note 7a)	**55.2**	1,327.0
Income taxes (Note 5)	**74.9**	61.8
Net earnings (loss)	**112.6**	(1,192.1)
Basic and diluted earnings (loss) per share, in dollars (Note 6)	**0.48**	(4.92)

Consolidated statements of comprehensive income (loss)

For the fiscal years ended February 27, 2010 and February 28, 2009	**2010**	2009
(in millions of Canadian dollars)	**$**	$
Net earnings (loss)	**112.6**	(1,192.1)
Other comprehensive income		
Foreign currency translation adjustments	**(6.7)**	282.0
Income taxes related to the above item	**(16.4)**	-
	(23.1)	282.0
Comprehensive income (loss)	**89.5**	(910.1)

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

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of changes in shareholders' equity

For the fiscal years ended February 27, 2010 and February 28, 2009	2010	2009
(in millions of Canadian dollars)	$	$
Capital stock, beginning of year	**648.1**	715.4
Redemption of stock	**-**	(67.3)
Options exercised	**2.7**	-
Capital stock, end of year	**650.8**	648.1
Contributed surplus, beginning of year	**28.4**	16.7
Stock-based compensation cost	**0.8**	1.0
Stock-based compensation in Rite Aid, a company subject to significant influence	**3.5**	10.7
Contributed surplus, end of year	**32.7**	28.4
Retained earnings (deficit), beginning of year	**(324.1)**	930.8
Net earnings (loss)	**112.6**	(1,192.1)
Dividends	**(42.5)**	(38.7)
Excess of purchase price over carrying value of Class A subordinate voting shares acquired (Note 13)	**-**	(24.1)
Deficit, end of year	**(254.0)**	(324.1)
Accumulated other comprehensive income (loss), beginning of year	**103.2**	(178.8)
Foreign currency translation adjustments, including income taxes effect	**(23.1)**	282.0
Accumulated other comprehensive income, end of year	**80.1**	103.2
Total shareholders' equity	**509.6**	455.6

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

THE JEAN COUTU GROUP (PJC) INC.

Consolidated balance sheets

(in millions of Canadian dollars)	**As at February 27, 2010** **$**	As at February 28, 2009 $
Assets		
Current assets		
Accounts receivable	**194.1**	183.6
Inventories	**163.8**	159.4
Prepaid expenses and others	**8.8**	6.2
	366.7	349.2
Investments (Note 7)	**61.0**	110.1
Property and equipment (Note 8)	**394.6**	366.2
Goodwill (Note 9)	**36.0**	36.0
Other long-term assets (Note 10)	**126.6**	152.9
	984.9	1,014.4
Liabilities		
Current liabilities		
Bank overdraft	**13.3**	21.2
Accounts payable and accrued liabilities	**195.2**	195.8
Income taxes payable	**36.1**	36.4
Short-term portion of long-term debt (Note 11)	**-**	5.9
	244.6	259.3
Long-term debt (Note 11)	**199.9**	269.8
Other long-term liabilities (Note 12)	**30.8**	29.7
	475.3	558.8
Guarantees, contingencies and commitments (Notes 17 and 18)		
Shareholders' equity		
Capital stock (Note 13)	**650.8**	648.1
Contributed surplus	**32.7**	28.4
Deficit	**(254.0)**	(324.1)
Accumulated other comprehensive income (Note 14)	**80.1**	103.2
	(173.9)	(220.9)
	509.6	455.6
	984.9	1,014.4

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

Approved by the Board

/s/ François J. Coutu
François J. Coutu
Director
President and Chief Executive Officer

/s/ L. Denis Desautels
L. Denis Desautels
Director

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of cash flows

For the fiscal years ended February 27, 2010 and February 28, 2009	2010	2009
(in millions of Canadian dollars)	$	$
Operating activities		
Net earnings (loss)	**112.6**	(1,192.1)
Items not affecting cash		
Amortization	**30.3**	23.5
Change in fair value of third party asset-backed commercial paper and related options of repayment (Note 21c)	**(4.6)**	7.0
Share of loss in Rite Aid, a company subject to significant influence	**55.2**	1,327.0
Future income taxes	**24.7**	10.0
Other	**(2.9)**	(0.5)
	215.3	174.9
Net changes in non-cash asset and liability items (Note 22)	**(12.5)**	(28.3)
Cash flow related to operating activities	**202.8**	146.6
Investing activities		
Investments and business acquisition	**(7.0)**	(3.4)
Purchase of property and equipment	**(46.9)**	(49.2)
Proceeds from disposal of property and equipment	**1.2**	0.8
Other long-term assets	**(27.2)**	(65.3)
Cash flow related to investing activities	**(79.9)**	(117.1)
Financing activities		
Net change in revolving credit facility, net of fees	**(69.8)**	105.5
Repayment of long-term debt	**(5.4)**	(2.1)
Issuance of capital stock	**2.7**	-
Redemption of capital stock	**-**	(91.4)
Dividends	**(42.5)**	(38.7)
Cash flow related to financing activities	**(115.0)**	(26.7)
Net change in cash and cash equivalents	**7.9**	2.8
Bank overdraft, beginning of year	**(21.2)**	(24.0)
Bank overdraft, end of year	**(13.3)**	(21.2)

The accompanying notes are an integral part of these consolidated financial statements. See supplemental cash flow information in Note 22.

1. Description of business and significant accounting policies

a) Description of business

The Company is incorporated under the Companies Act of Québec. The Company operates a franchisee network in Canada. The Company also operates two distribution centres and providing various services to 370 franchised stores as at February 27, 2010 (February 28, 2009 - 353). In fiscal 2010 there were 17 new store openings (2009 - 22). The franchised store network retails pharmaceutical, parapharmaceutical and other products. The Company also manages all properties that house franchisee outlets.

The Company owns Pro Doc Ltd ("Pro Doc"), a Québec-based subsidiary and manufacturer of generic drugs. The Company also holds a interest of 28.4 % in Rite Aid Corporation ("Rite Aid"), a national chain of drugstores in the United States with nearly 4,800 stores in 31 states and the District of Columbia.

b) Financial statement presentation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting policies ("GAAP").

Fiscal year end of the Company is the Saturday closest to February 29 or March 1 and usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The fiscal years ended February 27, 2010 and February 28, 2009 included both 52 weeks.

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.

d) Use of estimates

The preparation of the 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, investments, loss in value of investments, fair value of financial instruments, incentives paid to franchisees and allowances, specifically those related to income taxes as well as guarantees and contingencies.

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

e) Revenue recognition

Sales to franchisees are recognized when merchandise is shipped. 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

The fees of certain activities exercised by the Company as distributor are regulated. Indeed, in Quebec (province where almost the totality of the sales of the Company is generated), pursuant to the basic prescription drug insurance plan, the Minister of Health and Social Services draws up a list of medications. This list establishes the drugs covered by the plan and regulates the selling price of these drugs by indicating the price to which the pharmacists must sell them when they are intended to patients covered by the plan. The list of medications is established under the Act respecting prescription drug insurance and is periodically reviewed, after consultation of the "Conseil du médicament".

The Company must resell drugs to the pharmacists at the price indicated in the list of medications, to which it can however add a profit margin determined by the government in accordance to the Regulation respecting the conditions governing the accreditation of manufacturers and wholesalers of medications.

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 a payment for assets or services delivered to the vendors.

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

h) Foreign currency translation

The non-consolidated financial statements of the parent company, its subsidiaries and its investments subject to significant influence are prepared based on their respective functional currencies, which is the Canadian dollar for Canadian operations and corporate activities and the US dollar for its investment subject to significant influence in Rite Aid.

The financial statements of entities with the functional currency not the Canadian 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 the accumulated other comprehensive income.

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 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 fiscal 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.

j) Inventories

Inventories are measured at the lower of cost and net realizable value, the cost being determined using the first in, first out method.

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

k) Investments

i) Investments in companies subject to significant influence

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 is recognized in the consolidated statement of earnings. In the case of the investment in Rite Aid, which was acquired by the simultaneous sale and retention of interest in the Company's former US operations, certain adjustments are made to share of loss. The Company's share of Rite Aid's loss is adjusted to reflect the amortization of the fair value adjustments related to the Company's share of the net identifiable asset acquired of Rite Aid and to eliminate the effect of the purchase price allocation recorded by Rite Aid for the Company's retained interest in its former US Operations.

When the Company’s share of losses exceeds its investments in a company subject to significant influence, the carrying amount of that investment is reduced to zero, and the recognition of further share of loss is ceased except to the extent that the Company has an obligation or is engaged in any way to provide additional financial support to the company subject to significant influence.

Management periodically analyses each investment, and whenever an investment has declined below its carrying value and the decline is considered to be other than temporary, the carrying value of the investment is written down to its fair value and a loss in value is recognized in the consolidated statement of earnings.

ii) Long-term receivables from franchisees

Long-term receivables from franchisees are considered as loans and receivables, and are measured at amortized cost. At initial recognition, fair value adjustments based on the application of the effective interest rate method on new long-term receivables from franchisees are recorded against royalties. Subsequent adjustments resulting from the use of the effective interest rate method are recorded as interest income. Management analyzes periodically each investment and whenever an adverse event or changes in circumstances indicate that the recovery of an investment is uncertain, the carrying value of the investment is written down to its estimated realizable value. The loss in value is recognized in the consolidated statement of earnings.

iii) Third party asset-backed commercial paper

Investments in third party asset-backed commercial paper are classified as held for trading and are carried at fair value with changes in fair value recognized in the consolidated statement of earnings.

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

l) Property and equipment

Property and equipment are accounted for at cost. Construction in progress is not amortized until the asset is ready for its intended use. Amortization of other property and equipment 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	5%
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 5 years

m) 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 February 27, 2010 and February 28, 2009, the Company has performed impairment tests and no write-down was necessary.

In respect of investments in companies subject to significant influence, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investments in companies subject to significant influence.

n) Other long-term assets

Except for future income taxes (Note 1p) and options to repay drawdowns of credit facilities with restructured notes (Note 1u), other long-term assets are mainly incentives paid to franchisees and rent escalation assets. Incentives paid to franchisees are amortized using the straight-line method over a ten-year period, and amortization is applied against royalties included in other revenues. The Company has leases and subleases with predetermined fixed escalation of the minimum rent. The Company recognizes the related rent revenue on a straight-line basis over the term of the lease and consequently records the difference between the recognized rental revenue and the amount receivable under the lease as rent escalation assets in other long-term assets.

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

o) Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever adverse 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 from its use and disposition 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.

p) 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.

q) Other long-term liabilities

i) Deferred revenues

Deferred revenues consist mainly of a deferred gain related to sale-leaseback transactions. The Company also 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.

ii) Deferred lease obligations

The Company leases 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.

r) Stock-based compensation plan

The Company has a fixed stock option plan, which is described in Note 16. 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.

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

s) Defined benefit pension plans

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

The registered pension plans are 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 an actuarial valuation. The most recent actuarial valuation was performed as at December 31, 2008 and the next actuarial valuation date is December 31, 2010.

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions 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 6 years as at February 27, 2010 (February 28, 2009 - 7 years).

t) 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)*

u) Financial instruments

i) Financial assets and liabilities

Financial instruments are classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities, and measurement in subsequent periods depends on their classification. Financial assets and liabilities are initially recognized at their fair value and are subsequently, measured at fair value in the consolidated balance sheet, except loans and receivables, investments held-to-maturity and other non-trading financial liabilities, which are carried at amortized cost under the effective interest method.

Realized gains and losses and changes in fair value on held-for-trading financial assets and liabilities are recognized in the consolidated statement of earnings in the period which they arise. Unrealized gains and losses, including changes in foreign exchange rates on available-for-sale financial assets, are recognized in other comprehensive income until their realization, after which these amounts are recognized in the consolidated statement of earnings.

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated balance sheet when the Company has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Company's financial assets and liabilities are classified and measured as follows:

Assets/Liabilities	**Category**	**Subsequent Measurement**
Accounts receivable	Loans and receivables	Amortized cost
Long-term receivables from franchisees	Loans and receivables	Amortized cost
Third party asset-backed commercial paper	Held for trading	Fair value
Options to repay drawdowns of credit facilities with restructured notes	Held for trading	Fair value
Bank overdraft	Held for trading	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

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

u) Financial instruments *(continued)*

ii) Derivative financial instruments and hedge accounting

All derivatives financial instruments are carried at fair value in the consolidated balance sheet, including those derivatives that are embedded in other contracts but are not closely related to the host contract. Derivatives financial instruments, except for derivatives that are designated and effective hedging instruments, are financial assets or liabilities classified held for trading.

The Company does not use derivative financial instruments for speculative purpose. 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 the consolidated statement of earnings.

The Company did not use financial instruments to manage interest rate and foreign exchange rate risks during the fiscal years ended February 27, 2010 and February 28, 2009.

iii) Transaction costs

Transaction costs, if any, related to acquisition or issuance of financial instruments classified as held for trading, are recognized in net earnings. For financial instruments classified other than as held for trading, transaction costs are added to or deducted from the carrying value at acquisition or issuance of the financial instrument.

iv) Fair value hierarchy

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the significance of the inputs used in making the assessments.

Level 1:
Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2:
Quoted prices for similar instruments in active markets; quoted prices for identical or similar financial instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

Level 3:
Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

2. Changes in accounting policies

Fiscal year 2010

a) 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, and are presented net of outstanding cheques. When the amount of outstanding cheques is greater than the amount of cash and cash equivalents, the net amount is presented as bank overdraft on the Company's consolidated balance sheet. Accordingly, prior year figures have been reclassified to conform with this accounting policy.

b) Goodwill and intangible assets

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company has adopted this Section as of March 1, 2009. The adoption of this new Section had no material impact on the Company's consolidated financial statements.

c) Financial instruments - Disclosures

In June 2009, the CICA amended Section 3862, "Financial Instruments - Disclosures", to include additional disclosures relating to the assessment of financial instruments' fair value and liquidity risk. These amendments will be effective for annual financial statements of the fiscal year ending after September 30, 2009. Accordingly, the Company has adopted the additional disclosures in its annual financial statements for the fiscal year ending February 27, 2010. Additional information are presented in Note 21, "Financial instruments disclosure".

Fiscal year 2009

d) Capital disclosures

In December 2006, the CICA published Section 1535, "Capital Disclosures". This new standard establishes disclosure requirements concerning capital such as: qualitative information about an entity's objectives, policies and processes for managing capital; quantitative data about what it regards as capital; whether the entity has complied with any externally imposed capital requirements and, if not, the consequences of such non-compliance. The Company has adopted this Section as of March 2, 2008. Additional information are presented in Note 15, "Capital disclosures".

2. Changes in accounting policies *(continued)*

Recent pronouncements

e) International Financial Reporting Standards

In February 2008, the Accounting Standards Board of Canada announced that accounting standards in Canada, as used by public companies, will converge with International Financial Reporting Standards ("IFRS"). The Company's changeover date from Canadian GAAP to IFRS is for interim and annual financial statements of the fiscal year ending March 3, 2012. From this fiscal year, the Company will prepare both the current and comparative financial information using IFRS. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

The Company has completed the planning and diagnosis activities of its transition plan and has substantially completed the analysis and design of accounting policies phase. The Company began to implement the action plan developed in the analysis and design of accounting policies phase that involves the creation of new accounts and financial statements models, system changes and process changes. At this time, the impacts on the Company's future financial position and results of operations cannot be reasonably determined.

f) Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued three new accounting standards : Section 1582, "Business combinations", Section 1601, "Consolidated financial statements", and Section 1602, "Non-controlling interests". These new standards will be effective for interim and annual reporting periods beginning on or after January 1, 2011. Early adoption of these Sections is permitted as long as they are adopted simultaneously. These new accounting standards are intended to harmonize Canadian accounting standards with IFRS. The Company will adopt these Sections in the fiscal year beginning February 27, 2011.

Section 1582 replaces Section 1581 of the same name and establishes standards for the accounting of business combinations. It applies prospectively to business combinations with acquisition dates on or after the first annual reporting period beginning on or after January 1, 2011. Therefore, this Section would have an impact on the Company's consolidated financial statements if a business combination occurs after its adoption.

Sections 1601 and 1602 together replace section 1600 "Consolidated financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of these Sections should not have a significant impact on the Company's consolidated financial statements.

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

3. Other revenues

	2010	2009
	$	$
Royalties:		
Gross royalties	**122.2**	124.0
Amortization of incentives paid to franchisees	**(12.7)**	(7.4)
Initial discount on loans and receivables recorded under the effective interest rate method	**0.5**	(0.9)
Net royalties	**110.0**	115.7
Rent	**76.2**	70.2
Sundry	**58.5**	51.5
	244.7	237.4

4. Financing expenses (revenues)

	2010	2009
	$	$
Interest on long-term debt	**2.7**	8.4
Unrealized foreign exchange losses (gains) on monetary items	**(0.5)**	0.7
Realized foreign exchange gains on monetary items	**(0.1)**	(0.6)
Interest revenues on loans and receivable accounted for under the effective interest rate method	**(0.9)**	(1.2)
Change in fair value of third party asset-backed commercial paper and related options of repayment (Note 21c)	**(4.6)**	7.0
Other financing income, net	**(0.8)**	(1.7)
	(4.2)	12.6

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

5. Income taxes

The income taxes are as follows:

	2010	2009
	$	$
Current income taxes	**50.2**	51.8
Future income taxes	**24.7**	10.0
	74.9	61.8

The Company's income tax expense differs from the amounts that would be computed using the combined statutory rates. The difference is attributable to the following items:

	2010	2009
	$	$
Income taxes at statutory tax rates	**57.6**	(349.2)
Tax increase resulting from:		
Impact of the investment in Rite Aid, a company subject to significant influence, including the taxation rate difference on capital gain	**9.5**	202.7
Valuation allowance on future income tax assets	**7.1**	162.9
Non taxable variation of currency translation account	**-**	43.1
Other	**0.7**	2.3
	74.9	61.8

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

5. Income taxes *(continued)*

Future income tax assets and liabilities are as follows:

	As at February 27, 2010	As at February 28, 2009
	$	$
Future income tax assets:		
Investment in Rite Aid, a company subject to significant influence	**163.1**	212.2
Other investments	**1.0**	4.5
Property and equipment	**0.5**	0.4
Goodwill and incentives paid to franchisees	**5.4**	4.7
Current liabilities	**-**	0.5
Other long-term liabilities	**4.9**	5.3
Capital stock issuance costs	**-**	0.4
Penalty on senior notes reimbursements	**13.3**	17.4
Financing fees	**-**	0.6
Total future income tax assets	**188.2**	246.0
Less valuation allowance	**(163.1)**	(181.3)
	25.1	64.7
Future income tax liabilities:		
Property and equipment	**5.6**	4.5
Other	**1.2**	0.8
	6.8	5.3
Future income tax assets, net	**18.3**	59.4
Allocated as follows:		
Short-term future income tax asset (included in prepaid expenses and others)	**3.8**	-
Long-term future income tax asset	**15.8**	59.7
Long-term future income tax liability	**(1.3)**	(0.3)
	18.3	59.4

6. Earnings (loss) per share

The calculation of earnings (loss) per share and the reconciliation of the number of shares used to calculate the diluted earnings (loss) per share is established as follows:

	2010	2009
Net earnings (loss)	**$ 112.6**	$ (1,192.1)
Weighted average number of shares (in millions) used to compute basic and diluted earnings (loss) per share	**236.2**	242.4
Basic and diluted net earnings (loss) per share, in dollars	**$ 0.48**	$ (4.92)

For the fiscal year ended February 27, 2010, 1,717,000 antidilutive stock options have been excluded from the computation of diluted earnings per share (2,612,000 in 2009).

7. Investments

	As at February 27, 2010	As at February 28, 2009
	$	$
Investment in Rite Aid, a company subject to significant influence	**-**	58.3
Investments in companies subject to significant influence - Others	**7.9**	7.3
Long-term receivables from franchisees	**40.1**	29.6
Third party asset-backed commercial paper	**19.8**	21.8
	67.8	117.0
Current portion (included in accounts receivable)	**6.8**	6.9
	61.0	110.1

7. Investments *(continued)*

a) Investment in Rite Aid, a company subject to significant influence

On June 4, 2007, the Company sold to Rite Aid all of its 1,854 corporate establishments by which the Company operated a US network that retail pharmaceutical and parapharmaceutical products. Pursuant to this transaction, the Company no longer directly operates corporate drugstores in the United States, but rather holds an equity interest of 28.4% (February 28, 2009 - 28.4%) in Rite Aid. Rite Aid is one of the United States' leading drugstore chain, operating nearly 4,800 drugstores.

The equity interest in Rite Aid represents an investment subject to significant influence, which is accounted for using the equity method. On February 27, 2010, the market value of equity interest in Rite Aid was US$383.0 million (February 28, 2009 - US$70.6 million).

During the fiscal year ended February 28, 2009, the Company performed a comprehensive analysis related to its investment in Rite Aid and impaired it at its fair value. Consequently, the carrying value of the investment in Rite Aid was assessed at $58.3 million as at February 28, 2009. The Company used the closing market value of Rite Aid's common shares as of February 28, 2009 (US$0.28), adjusted by a liquidity discount to assess the fair value of its investment and record the other-than-temporary loss in value. This loss in value is included in the share of loss in Rite Aid, a company subject to significant influence account in the consolidated statement of earnings of the Company for the year ended February 28, 2009.

During the fiscal year ended February 27, 2010, the Company's share of loss in Rite Aid exceeded the carrying value of its investment. As required by Canadian GAAP, the Company reduced the carrying value of its investment down to zero and ceased recording its share of loss in Rite Aid exceeding the carrying value of its investment, since the Company has not guaranteed obligations of Rite Aid and is not committed to provide it with further financial support. For the fiscal year ended February 27, 2010, the Company's unrecognized share of loss in Rite Aid amounted to $89.4 million (none in 2009).

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

7. Investments *(continued)*

a) Investment in Rite Aid, a company subject to significant influence (continued)

The following table presents Rite Aid Corporation's selected financial information derived from their consolidated and audited financial statements as at February 27, 2010, and February 28, 2009, and for the 52-week periods then ended, in accordance with US GAAP, in US dollars. The Company has also presented this information using Canadian GAAP for information purposes.

	US GAAP	**CDN GAAP**	US GAAP	CDN GAAP
	2010	**2010**	2009	2009
	US$	**US$**	US$	US$
Rite Aid's consolidated statement of operations data:				
Revenues	**25,669.2**	**25,669.2**	26,289.2	26,289.2
Net loss	**(506.7)**	**(424.0)**	(2,915.4)	(2,502.3)

	US GAAP	**CDN GAAP**	US GAAP	CDN GAAP
	As at February 27, 2010	**As at February 27, 2010**	As at February 28, 2009	As at February 28, 2009
	US$	**US$**	US$	US$
Rite Aid's consolidated balance sheet data:				
Total assets	**8,049.9**	**8,735.0**	8,326.5	8,941.3
Total liabilities	**9,723.5**	**9,525.9**	9,526.2	9,330.6
Stockholders' deficit	**(1,673.6)**	**(790.9)**	(1,199.7)	(389.3)

b) Long-term receivables from franchisees

Long-term receivables from franchisees are accounted for using the effective interest rate method. As at February 27, 2010, the principal amount of these investments was $47.9 million (February 28, 2009 - $38.2 million) before the discount effect of $3.3 million (February 28, 2009 - $5.2 million) and before deduction of a provision for undiscounted losses of $4.5 million (February 28, 2009 - $3.4 million). These investments bear interest at rates up to 8.5% (February 28, 2009 - 9.5%), carry repayment terms up to 2026 and certain of these receivables are renewable.

7. Investments *(continued)*

c) Third party asset-backed commercial paper

On February 27, 2010, the Company held third party asset-backed commercial paper (“ABCP”) of a nominal amount of $31.7 million (of which $0.5 million is denominated in US dollars). As at February 27, 2010, notional values of Master Asset Vehicles (“MAV”) II and MAV III notes are $24.8 million (A1 - $10.4, A2 - $10.3, B - $1.9, C - $0.7 and $1.5 of ineligible assets tracking notes) and $6.9 million ($0.8 million of traditional assets tracking notes and $6.1 million of ineligible assets tracking notes), respectively.

These ABCP are accounted for at their fair value, which was $19.8 million as of February 27, 2010 ($21.8 million as at February 28, 2009). As at February 27, 2010, the total loss in value recorded was $11.9 million representing 38% of the ABCP's nominal amount at that date. For the fiscal year ended February 27, 2010, the Company recorded a gain in value of its ABCP of $1.7 million (loss in value of $7.0 million in 2009), received $3.5 in principal repayments on some of its ABCP (none in 2009) and wrote off an amount of $0.5 million (none in 2009) related to capital losses on ABCP. The change in balances of ABCP is presented in Note 21c).

The Company assessed its ABCP as at February 27, 2010. Since there is no active market for ABCP, the Company has estimated their fair value by discounting the expected cash flows at yields comparable to prevailing market yields and credit spreads available for securities with similar characteristics to the restructured notes and other market inputs reflecting the Company’s best available information.

This estimate of the fair value of the ABCP is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in assumptions could affect the value of ABCP securities in the next fiscal year. The resolution of these uncertainties could be such that the ultimate fair value of these investments may vary from management’s current best estimate. The Company tested the sensitivity of its ABCP valuation model, and a 100 basis point increase in the discount rate would result in a 4.5% or $0.9 million pre-tax decrease in the fair value of these investments.

The Company has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect there will be a material adverse impact on its business as a result of the ABCP liquidity issue.

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

8. Property and equipment

	As at February 27, 2010		
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Land	**3.7**	**-**	**3.7**
Land held for leasing	**94.0**	**-**	**94.0**
Buildings	**53.3**	**21.4**	**31.9**
Buildings held for leasing	**276.9**	**49.0**	**227.9**
Leasehold improvements	**17.0**	**7.4**	**9.6**
Equipment	**70.4**	**55.8**	**14.6**
Construction in progress	**12.9**	**-**	**12.9**
	528.2	**133.6**	**394.6**

	As at February 28, 2009		
	Cost	Accumulated amortization	Net book value
	$	$	$
Land	3.7	-	3.7
Land held for leasing	85.8	-	85.8
Buildings	53.0	19.8	33.2
Buildings held for leasing	246.9	41.2	205.7
Leasehold improvements	13.4	6.5	6.9
Equipment	61.7	47.4	14.3
Equipment under capital leases	1.6	1.6	-
Construction in progress	16.6	-	16.6
	482.7	116.5	366.2

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

9. Goodwill

	As at February 27, 2010	As at February 28, 2009
	$	$
Balance, beginning of year	**36.0**	35.3
Adjustment to Pro Doc business acquisition	**-**	0.7
Balance, end of year	**36.0**	36.0

10. Other long-term assets

	As at February 27, 2010	As at February 28, 2009
	$	$
Incentives paid to franchisees, net	**97.7**	83.2
Future income taxes (Note 5)	**15.8**	59.7
Options to repay drawdowns of credit facilities with restructured notes (Notes 11 and 21c)	**2.9**	-
Rent escalation assets	**8.7**	8.8
Other	**1.5**	1.2
	126.6	152.9

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

11. Long-term debt

	As at February 27, 2010	As at February 28, 2009
	$	$
Unsecured revolving credit facility, maturing on June 4, 2012, bearing interest at a weighted average rate of 0.85% (February 28, 2009 - 1.54%). Interest rate is repriced periodically for terms generally not exceeding one month.	**199.9**	269.8
Unsecured senior subordinated notes (denominated in US dollars), bearing interest at 8.50% and redeemed in September 2009.	**-**	3.4
Loans, secured by real estate having a net book value of $4.0 million as at February 28, 2009, bearing interest at rates varying from 5.5% to 7.5% that matured during the year ended February 27, 2010.	**-**	2.5
	199.9	275.7
Short term portion of long term debt	**-**	5.9
	199.9	269.8

a) Credit agreement

The Company is bound by an unsecured revolving credit facility in the amount of $500 million maturing on June 4, 2012. Borrowings under the credit facility bear interest at the Canadian prime rate plus a variable margin (totalling 2.25% as at February 27, 2010 and 3.0% as at February 28, 2009) or at banker acceptance rate plus a variable margin (totalling 0.85% as at February 27, 2010 and 1.4% as at February 28, 2009). Margins depend on the achievement of certain financial ratios. As at February 27, 2010, $200.3 million of the available credit facilities were used (February 28, 2009 - $270.3 million), including outstanding letters of credit of $0.3 million (February 28, 2009 - $0.3 million).

Under the terms and conditions of the credit agreement, the Company must satisfy certain covenants as, among others, the maintenance of financial ratios, which are described in Note 15, and the compliance with certain conditions regarding indebtedness, investments and business acquisitions. As at February 27, 2010 and February 28, 2009, the Company satisfied such covenants.

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

11. Long-term debt *(continued)*

a) Credit agreement *(continued)*

On May 28, 2009, the Company entered into revolving credit facilities in a total amount of $17.6 million (of which $0.5 million is denominated in US dollars) and maturing between May 28, 2011 and May 28, 2012. Borrowings under the credit facilities bear interest at the Canadian prime rate plus a variable margin (totalling 1.25% as at February 27, 2010) or at banker acceptance rate plus a variable margin (totalling 1.05% as at February 27, 2010), and may be renewed for periods of 12 consecutive months until reaching a total term of 7 years. The total available revolving credit facilities is reduced in case of subsequent repayments of certain ABCP, reducing the amount available to 16.5 million as at February 27, 2010. These revolving credit facilities are secured by a first ranking security interest on ABCP that are described in Note 7c). As at February 27, 2010, none of these credit facilities were used.

These new credit facilities include options, that allow the Company to use the restructured notes to repay the drawdowns as they become due, under certain conditions. The Company assessed and accounted these options to repay drawdowns of credit facilities with restructured notes at fair value under other long-term assets. As at May 28, 2009, the corresponding initial fair value was $3.4 million. As at February 27, 2010, the fair value of these options was $2.9 million. This amount was recognized in net earnings under change in fair value of third party asset-backed commercial paper as presented in Note 21c).

b) Minimum repayments

The entire debt as at February 27, 2010 is repayable during the fiscal year ending March 2, 2013.

12. Other long-term liabilities

	As at February 27, 2010	As at February 28, 2009
	$	**$**
Deferred revenues	**16.6**	18.8
Deferred lease obligations	**12.9**	10.5
Future income taxes (Note 5)	**1.3**	0.3
Other	**-**	0.1
	30.8	29.7

13. 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 with 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.

Changes that occurred in capital stock are presented as follows:

	2010		2009	
	Shares		Shares	
	(in millions)	**$**	*(in millions)*	$
Class A subordinate voting shares				
Outstanding shares, beginning of year	**118.6**	**648.1**	130.9	715.4
Repurchased and cancelled	**-**	**-**	(12.3)	(67.3)
Stock options exercised	**0.3**	**2.7**	-	-
Outstanding shares, end of year	**118.9**	**650.8**	118.6	648.1
Class B shares				
Total outstanding shares, beginning and end of year	**117.4**	**-**	117.4	-

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

13. Capital stock *(continued)*

Normal course issuer bid

In July 2008, the Company announced its intention to purchase for cancellation up to 12,311,000 of its outstanding Class A subordinate voting shares. All of these shares were purchased and cancelled during the fiscal year ended February 28, 2009 at an average price of $7.42 per share for a total consideration of $91.4 million including fees. An amount of $24.1 million representing the excess of the purchase price over the carrying value of the acquired shares was deducted from retained earnings. Purchases were made through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

The Company has not redeemed Class A subordinate voting shares during the fiscal year ended February 27, 2010.

14. Accumulated other comprehensive income (loss)

The net change in accumulated other comprehensive income, consisting of the effect of changes in exchange rates on the investment in Rite Aid, a company subject to significant influence, and net of income taxes, is as follows:

	As at February 27, 2010	As at February 28, 2009
	$	$
Balance, beginning of year	**103.2**	(178.8)
Effect of changes in exchange rates on the investment in Rite Aid, a company subject to significant influence, including income taxes effect	**(23.1)**	282.0
Balance, end of year	**80.1**	103.2

15. Capital disclosure

The Company's objectives when managing capital are as follows:

- to safeguard the Company's ability to continue as a going concern and to support its growth strategy to provide returns to shareholders ;
- to maintain an optimal capital structure in order to reduce the cost of capital ;
- to complete significant and appropriate capital investments to ensure that its operations remain competitive and stable.

The Company manages and adjusts its capital structure in conjunction with economic conditions and risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, repurchase shares, adjust the amount of dividends paid to shareholders, proceed to the issuance or repayment of debt and acquire or sell assets to improve its financial performance and flexibility. The Company's capital objectives, policies and procedures are unchanged since February 28, 2009.

The Company defines its capital per the total capitalization, which is net debt plus shareholder's equity. Net debt consists of long-term debt (including the current portion) and bank overdraft. Total capitalization and net debt are non GAAP measures and could be different than measures used by other companies.

The Company monitors its capital using different financial ratios and non-financial performance indicators. The Company periodically monitors capital using a number of financial metrics comprised mainly of the following ratios:

- net debt to total capitalization ;
- net debt to operating income before amortization ("OIBA").

OIBA is not a measure of performance under Canadian GAAP and is defined in Note 23 related to the segmented information.

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

15. Capital disclosure *(continued)*

The following table reconciles total capitalization and details the computation of the ratios used by the Company:

	As at February 27, 2010	As at February 28, 2009
	$	$
Bank overdraft	**13.3**	21.2
Current portion of long-term debt	**-**	5.9
Long-term debt	**199.9**	269.8
Net debt	**213.2**	296.9
Shareholders' equity	**509.6**	455.6
Total capitalization	**722.8**	752.5
Operating income	**238.5**	209.3
Plus: Amortization [1]	**30.3**	23.5
Operating income before amortization	**268.8**	232.8
Net debt to shareholder's equity	**29.5%**	39.5%
Net debt to operating income before amortization	**0.8**	1.3

[1] Including amortization of incentives paid to franchisees.

The Company considers that these ratios are satisfactory as it complies with its managing capital objectives.

The Company must also comply quarterly to certain financial covenants under its $500 million revolving credit facility described in Note 11. These financial covenants consist in the maintenance of (i) a maximum leverage ratio, and, if this ratio exceeds a certain level, (ii) a minimum interest coverage ratio. The Company is in compliance with the requirements stipulated in its credit facility agreement with regards to the maintenance of those ratios.

16. Stock-based compensation plan

The Company has a fixed stock option plan. Under the stock option plan established in 1995 for its officers, 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 5 days preceding the date of the granting of the options. An option's maximum term is 10 years. Granted options vest annually over a maximum period of 4 years.

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

	2010		2009	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	(in millions)	***(in dollars)***	*(in millions)*	*(in dollars)*
Options outstanding, beginning of year	**2.6**	**13.20**	2.4	13.85
Options granted	**0.4**	**9.95**	0.2	7.45
Options exercised	**(0.3)**	**8.70**	-	-
Options forfeited	**(0.8)**	**15.05**	-	-
Options outstanding, end of year	**1.9**	**12.56**	2.6	13.20
Options exercisable, end of year	**1.3**	**13.70**	2.1	13.80

The following table summarizes information about the stock options as at February 27, 2010:

	Options outstanding			**Options exercisable**	
Range of exercise price	**Number of options**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
(in dollars)	***(in millions)***	***(years)***	***(in dollars)***	***(in millions)***	***(in dollars)***
Below $10	**0.4**	**7.1**	**8.03**	**0.2**	**8.30**
$10 - $15	**1.1**	**7.1**	**12.40**	**0.7**	**13.25**
$15 - $20	**0.4**	**0.4**	**16.72**	**0.4**	**16.72**
	1.9	**6.4**	**12.56**	**1.3**	**13.70**

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

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

The following data represents the assumptions used in the stock option fair value valuation in accordance with the Black-Scholes model for the options granted:

	2010	2009
Dividend yield	**1.97%**	1.84%
Expected volatility	**34.08%**	33.48%
Risk-free interest rate	**2.69%**	1.88%
Expected life (years)	**6**	6

During the fiscal year ended February 27, 2010, the Company granted 362,330 stock options (264,300 in 2009). The fair value of those options is $2.86 for the fiscal year ended February 27, 2010 ($2.37 in 2009). An amount of $0.8 million for the fiscal year ended February 27, 2010 was expensed for the stock option plan ($0.8 million in 2009). No amount ($0.2 million in 2009) was recorded as stock-based compensation cost for former employees of our US Operations now working with Rite Aid. This amount was recorded in the share of loss in Rite Aid, a company subject to significant influence.

The Company also has a stock appreciation right and a stock unit plan. During the year ended February 27, 2010, the Company granted 18,715 stock units (23,737 en 2009) and no stock appreciation right (85,460 in 2009).

17. Guarantees and contingencies

a) Guarantees

On June 4, 2007, the Company sold its US Operations to Rite Aid. As part of this transaction, the Company agreed to enter into certain customary indemnification obligations in favour of the purchaser in case of eventual breach of representations or warranties stipulated in the stock purchase agreement. Those representations or warranties refer to issues such as taxes and other indemnification obligations related to facts, circumstances or conditions in existence prior to June 4, 2007 with respect to the stock purchase agreement and other related agreements entered into with J.C. Penney Company, Inc. on July 31, 2004. Some of the indemnification guarantees are not limited in time. In addition, certain portions of the Company's indemnification guarantees are capped at US$450,000,000, while other provisions are not subject to such a limit.

The Internal Revenue Service ("IRS") issued a report following the completion of the tax audit for the fiscal years 2004 and 2005 of the US Operations sold to Rite Aid. The Company started the appeal process of these audit results. The IRS began the audit of the fiscal years 2006 and 2007, but has not completed it yet. Although the final outcome of these audits cannot be determined with certainty, the Company believes that its provision related to the tax indemnification that could result from these audits is sufficient. The Company is unable to estimate potential liability for the other 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.

17. Guarantees and contingencies *(continued)*

a) Guarantees *(continued)*

The Company has guaranteed the reimbursement of certain bank loans contracted by franchisees for a maximum amount of $2.4 million as at February 27, 2010 (February 28, 2009 - $2.7 million). Most of those guarantees apply to loans with a maturity of one year. Those loans are also personally guaranteed by the franchisees.

b) 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 at February 27, 2010, financing related to these inventories amounted to $116.3 million (February 28, 2009 - $103.0 million). 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 5 years and loans not exceeding 15 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 whether set by contract with the financial institutions, or linked to the loan balance at the buyback date. As at February 27, 2010, financing related to the equipment amounted to $61.1 million (February 28, 2009 - $28.0 million). 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 February 27, 2010, and February 28, 2009.

c) 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. The Company limits its exposure to some risk of claims related to its activities by subscribing to insurance policies.

Also, during the fiscal year 2009, the Company was named as a defendant in an action instituted against it by one of its franchisees. The plaintiff claims that the clause of its franchise agreement regarding the payment of royalties on the sale of medications of its pharmacies would be illegal because it would lead him to contravene an article of the Pharmacists' Code of ethics. The Company contests the grounds upon which this action is based and intends to defend its position. However, due to the inherent uncertainties of litigation, it is not possible to predict the final outcome of this lawsuit or to determine the amount of any potential losses, if any. No provision for contingent loss has been recorded in the Company's consolidated financial statements.

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

18. Commitments

The balance of the commitments under the terms of building and vehicle operating leases maturing up to the year 2047 totals $415.8 million. The Company also has commitments for the acquisition and construction of buildings with contractors totalling $24.0 million and agreements with suppliers to purchase inventory and services totalling $15.3 million. Minimum payments payable over the next five years are as follows:

	Operating leases	Other commercial commitments
	$	$
2011	**40.0**	**33.2**
2012	**38.1**	**3.8**
2013	**34.9**	**1.0**
2014	**33.1**	**0.4**
2015	**31.8**	**0.3**

Under the terms of building leases and subleases, the Company will receive, up to the year 2058, minimum payments totalling $440.8 million. 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 Canadian dollars, unless otherwise noted)

19. 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 February 27, 2010 (February 28, in 2009).

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

	2010	2009
	$	$
Defined contribution pension plans' expense	**1.4**	1.7
Defined benefit pension plans		
Current service cost	**0.8**	0.7
Interest expense	**1.0**	0.7
Actual return on plan assets	**(1.5)**	1.2
Amendments to pension plans	**(0.3)**	-
Actuarial loss (gain)	**3.1**	(3.2)
Elements of the defined benefit pension plans' expense before adjustments to recognize the long-term nature of employee future benefit costs	**3.1**	(0.6)
Amortization of past service cost	**1.0**	0.4
Difference between actual return and expected return on plan assets	**1.1**	(1.8)
Difference between actuarial gain (loss) recognized for the year and actual actuarial gain (loss) on accrued benefit obligation	**(3.1)**	3.2
Defined benefit pension plans' expense	**2.1**	1.2

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

19. Pension plans *(continued)*

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

	As at February 27, 2010	As at February 28, 2009
	$	$
Accrued benefit obligations		
Balance, beginning of year	**12.4**	11.9
Current service cost	**0.8**	0.7
Interest expense	**1.0**	0.7
Benefits paid	**(0.2)**	(0.3)
Amendments to pension plans and settlement	**-**	2.6
Actuarial loss (gain)	**3.1**	(3.2)
Balance, end of year	**17.1**	12.4
Plan assets		
Fair value, beginning of year	**7.2**	8.1
Actual return on plan assets	**1.5**	(1.2)
Employer contributions	**5.6**	1.3
Benefits paid	**(0.2)**	(0.3)
Settlement	**(0.6)**	(0.7)
Fair value, end of year	**13.5**	7.2
Accrued benefit obligations	**17.1**	12.4
Plan assets	**(13.5)**	(7.2)
	3.6	5.2
Unamortized net actuarial gain (loss)	**(1.7)**	0.3
Unamortized past service cost	**(3.3)**	(4.3)
Accrued benefit liability (asset) (included in accounts payable and accrued liabilities (receivables))	**(1.4)**	1.2

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

19. Pension plans *(continued)*

As of February 27, 2010, some of the pension plans of the Company had accrued benefit obligation exceeding the plan assets value (all in 2009). For those plans, the accrued benefit obligation was of $12.4 million and the fair value of plan assets was of $8.5 million at that date.

As at February 27, 2010, 28% (33% in 2009) of the plan assets at fair value was deposited as Canadian refundable tax and 72% (67% in 2009) was invested. The balance invested consists of the following allocations:

	2010	2009
	%	%
Balanced funds	**58**	72
Equity funds	**42**	28

No plan assets are directly invested in the parent company or 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):

	2010	2009
	%	%
Accrued benefit obligations		
Discount rate	**6.00**	8.00
Expected long-term rate of return on plan assets	**6.25**	6.25
Rate of compensation increase	**4.00**	4.00
Defined benefit expense		
Discount rate	**8.00**	5.50
Rate of compensation increase	**4.00**	4.00

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

20. Related party transactions

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

	2010	2009
	$	$
Revenues		
Sales	**26.3**	32.6
Royalties	**1.3**	1.9
Rent	**1.1**	1.2
	28.7	35.7

As at February 27, 2010, accounts receivable include an amount of $1.6 million (February 28, 2009 - $3.3 million) resulting from these transactions and receivables do not include significant long-term receivable (same as of February 28, 2009) to executives in connection with the acquisition of franchised stores. These transactions are carried out in the normal course of business and are measured at the exchange amount.

During the fiscal year ended as of February 27, 2010, no transaction resulting from information technology services rendered to Rite Aid, a company subject to significant influence occurred (in 2009, those transactions generated a $0.9 million income included in the sales).

21. Financial instruments disclosure

a) Carrying amounts by financial asset and liability category :

	As at February 27, 2010	As at February 28, 2009
	$	$
Financial assets held for trading		
ABCP	**19.8**	21.8
Options to repay drawdowns of credit facilities with restructured notes	**2.9**	-
Loans and receivables		
Accounts receivable	**194.1**	183.6
Long-term receivables from franchisees	**33.3**	22.7
Financial liabilities		
Bank overdraft	**13.3**	21.2
Accounts payable and accrued liabilities	**195.2**	195.8
Current portion of long-term debt	**-**	5.9
Long-term debt	**199.9**	269.8

21. Financial instruments disclosure *(continued)*

b) Fair value

As at February 27, 2010 and February 28, 2009, the fair value of accounts receivable and accounts payable and accrued liabilities approximated to their carrying amounts because of their forthcoming maturities.

The fair value of long-term receivables from franchisees was not significantly different from their respective carrying amounts as at February 27, 2010, and February 28, 2009 as their effective interest rates are similar to the rates that the Company would grant for loans with similar terms and conditions as of the date of the financial statements.

An analysis of the methods and assumptions used in assessment of the fair value of ABCP is included in Note 7c).

The fair value of options to repay drawdowns of credit facilities with restructured notes described in Note 11a) was determined using the Black & Scholes option pricing model and also takes into account the fair value of the underlying ABCP as at February 27, 2010.

The fair value of bank overdraft and long-term debt was not significantly different from their carrying amount as at February 27, 2010, and February 28, 2009 given that long-term debt mainly bears interest at rates based on market rates for terms generally not exceeding one month. At each balance sheet date, the Company believes it would obtain relatively similar interest rates for loans with similar terms and conditions. These conditions would not affect the fair value of the long-term debt in a way that it would not differ significantly from its carrying value.

c) Fair value hierarchy

The Company classified the fair value assessments of its financial instruments, consisting of the ABCP and the options to repay drawdowns of credit facilities with restructured notes as assessments of level 3 as at February 27, 2010, because significant unobservable market inputs are used in assessments.

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

21. Financial instruments disclosure *(continued)*

c) Fair value hierarchy (continued)

The details in the changes in balances of ABCP and options to repay drawdowns of credit facilities with restructured notes in the consolidated balance sheet, and in the change in fair value of ABCP recognized in net income (Note 4) are presented as follows:

	Fair value of ABCP	Options to repay drawdowns	Change in fair value
	$	$	$
Fair value as at March 1, 2008	28.5	-	-
Change in fair value	(7.0)	-	7.0
Effect of change in exchange rates	0.3	-	-
Fair value as at February 28, 2009 / Impact on net results	21.8	-	7.0
Initial gain on options to repay drawdowns	-	3.4	(3.4)
Change in fair value	1.7	(0.5)	(1.2)
Principal repayments	(3.5)	-	-
Effect of change in exchange rates	(0.2)	-	-
Fair value as at February 27, 2010 / Impact on net results	19.8	2.9	(4.6)

d) Credit risk

Credit risk relates to the risk that a party to a financial instrument will not fulfil some or all of its obligations, thereby, causing the Company to sustain a financial loss. The principal credit risks for the Company relate to ABCP, accounts receivable and long-term receivables from franchisees. Credit risk is reduced by the active monitoring of the accounts receivable and receivables from franchisees by the Company's management and by the options to repay drawdowns of credit facilities with restructured notes.

The carrying amounts of financial assets represents the Company's maximum exposure.

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

21. Financial instruments disclosure *(continued)*

d) Credit risk *(continued)*

Allowance for credit losses is reviewed at each balance sheet date. The Company updates its estimate of allowance for credit losses based on the evaluation of the recoverability of each franchisee balances taking into account historic collection. The allowance for credit losses is maintained at a sufficient level to absorb any future losses. The change in allowance for credit losses taking into account the effect of discounting these allowances is presented as follows:

	2010	2009
	$	$
Balance, beginning of year	**2.0**	1.6
Allowance for credit losses	**1.4**	0.7
Write-off	**(0.4)**	(0.3)
Balance, end of year	**3.0**	2.0

e) Liquidity risk

Liquidity risk is the risk that the Company will be unable to fulfil its financial obligations when they are due. The Company manages its liquidity risk by monitoring its operating requirements and using its revolving credit facility to ensure its financial flexibility. The Company prepares budget and cash forecasts to ensure that it has sufficient funds to fulfil its obligations.

As at February 27, 2010, the Company had accounts payable and accrued liabilities of $195.2 million (February 28, 2009, $195.8 million) due over the next 12 months. Due dates for the long-term debt and the commitments are presented in Notes 11 and Note 18, respectively.

The Company generates enough cash provided by its operating activities and have sufficient available financing via its revolving credit facility to finance its activities and to respect its obligations when they are due.

f) Interest rate risk

During the normal course of business, the Company is exposed to interest rate fluctuation risk as a result of its financial obligations at variable interest rate. As at February 27, 2010, $199.9 million (February 28, 2009 - $269.8 million) of long-term debt was exposed to interest rate fluctuations, representing its portion of revolving credit facility bearing interest at rate repriced generally for terms not exceeding one month. The Company is also exposed to interest rate fluctuation risk on the ABCP it holds (Note 7c).

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

21. Financial instruments disclosure *(continued)*

f) Interest rate risk *(continued)*

The Company manages its interest rate exposure on long term debt and could, amongs others, enter into swap agreements consisting in exchanging variable rates for fixed rates. For the fiscal year ended February 27, 2010, a 100 basis points increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a $1.7 million decrease or increase in the Company's net earnings, respectively.

g) Foreign exchange risk

Transactions denominated in currencies other than an entity's functional currency are translated according to the temporal method. All exchange gains and losses are included in the consolidated statement of earnings, unless subject to hedge accounting. As at February 27, 2010 and February 28, 2009, the Company's financial instruments denominated in a foreign currency were not significant and no hedging instruments were used to mitigate the risk from changes in foreign currency rates.

22. Supplemental cash flow information

	2010	2009
	$	$
Net changes in non-cash asset and liability items		
Accounts receivable and prepaid expenses	**(9.3)**	(16.7)
Inventories	**(4.4)**	(4.7)
Accounts payable and accrued liabilities and income taxes payable	**2.0**	(13.6)
Other long-term assets	**(0.3)**	7.3
Other long-term liabilities	**(0.5)**	(0.6)
Net changes in non-cash asset and liability items	**(12.5)**	(28.3)
Other information		
Interest paid	**2.9**	8.7
Income taxes paid	**50.5**	77.9
Property and equipment acquired included in accounts payable and accrued liabilities	**5.1**	7.6

23. Segmented information

The Company has two reportable segments that are defined by geography and by the nature of their business: franchising segment in Canada, and an investment in Rite Aid, an entity subject to significant influence, which operates in the United States. Within the franchising segment, the Company carries on the franchising activity under the banners of "PJC Jean Coutu", "PJC Clinique", "PJC Santé" and "PJC Santé Beauté", operates two distribution centres and coordinates several other services for the benefit of its franchisees. The investment in Rite Aid is accounted for using the equity method as described in Note 7a). Consequently, all information required is included in the consolidated statements of earnings and note to the consolidated financial statements.

The Company analyzes the performance of its franchising segment based on its OIBA, which is not a measure of performance under Canadian GAAP. OIBA results from the addition of net earnings (loss), income taxes, share of loss in Rite Aid, a company subject to significant influence, financing expenses (revenues), amortization of property and equipment and amortization of incentives paid to franchisees. OIBA for the franchising segment is detailed as follows :

	2010	2009
	$	$
Operating income before amortization	**268.8**	232.8

24. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

General Information

The Jean Coutu Group (PJC) Inc.

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Transfer agent and registrar

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Stock Market Information

Toronto Stock Exchange
Ticker symbol: PJC.A

Internet Site

www.jeancoutu.com

Annual General Meeting

The Annual General Meeting of Shareholders of The Jean Coutu Group (PJC) Inc. will be held on July 6, 2010 at 9:30 a.m. at the corporate headquarters of the Company, 551 Bériault Street, Longueuil, Québec.

Annual Information Form

The annual information form for the year ended February 27, 2010 is available upon request. To order, please contact the Corporate Secretary of the Company.

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Pour obtenir la version française de ce rapport, veuillez écrire à :

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