The
Jean Coutu
Group (PJC) Inc.

2011
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 "Corporation", "Jean Coutu Group", "we" or "our". The Management's Discussion and Analysis of the financial position and results of operations ("MD&A") should be read in conjunction with the Consolidated Financial Statements and the notes thereto for the fiscal years ended February 26, 2011 and February 27, 2010.

The Jean Coutu Group is one of the most trusted names in Canadian pharmacy retailing. The Corporation operates a network of 389 franchised stores located in the provinces of Québec, New Brunswick and Ontario under the banners of PJC Jean Coutu, PJC Clinique, PJC Jean Coutu Santé and PJC Jean Coutu Santé Beauté, and employs over 18,000 people. Furthermore, since December 2007, the Jean Coutu Group owns Pro Doc Ltd ("Pro Doc"), a Québec-based subsidiary and manufacturer of generic drugs. The Corporation also holds a significant interest in Rite Aid Corporation ("Rite Aid") a national chain of drugstores in the United States with over 4,700 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 fiscal year ended February 26, 2011.

Revenues amounted to $655.6 million during the fourth quarter ended February 26, 2011, compared with $637.0 million during the fourth quarter ended February 27, 2010, an increase of 2.9%. During fiscal year 2011, revenues amounted to $2.598 billion compared with $2.543 billion during the previous fiscal year, a 2.2% increase.

Operating income before amortization ("OIBA") increased by $4.4 million to $75.6 million for the fourth quarter of fiscal year 2011 compared with $71.2 million for the fourth quarter of fiscal year 2010. OIBA as a percentage of revenues ended the fourth quarter of fiscal year 2011 at 11.5% compared with 11.2% for the fourth quarter of the previous fiscal year. OIBA ended fiscal year 2011 at 11.2% compared with 10.6% for the previous fiscal year.

No share of loss in Rite Aid was accounted in the Corporation’s earnings during fiscal year 2011 compared with $55.2 million ($0.23 per share) during fiscal year 2010. This was a non-cash charge.

Net earnings for the fourth quarter ended February 26, 2011, amounted to $46.4 million ($0.20 per share) compared with $42.8 million ($0.18 per share) during the fourth quarter ended February 27, 2010. Net earnings for the fiscal year 2011 amounted to $180.2 million ($0.77 per share) compared with $112.6 million ($0.48 per share) during fiscal year 2010.

Earnings before specific items and share of loss in Rite Aid amounted to $45.6 million ($0.20 per share) during the fourth quarter of fiscal year 2011 compared with $42.9 million ($0.18 per share) during the fourth quarter of fiscal year 2010, an increase of 6.3%. Earnings before specific items and share of loss in Rite Aid amounted to $179.1 million ($0.77 per share) during fiscal year 2011 compared with $162.7 million ($0.69 per share) during fiscal year 2010.

PJC network of franchised stores’ retail sales increased by 3.9% while, on a same-store basis, they gained 1.4% during the fourth quarter of fiscal year 2011 compared with the same period last year. During fiscal year 2011, PJC network retail sales increased by 3.9% while, on a same-store basis, they gained 1.6% compared with fiscal year 2010.

"We are very satisfied with the results of the fourth quarter and fiscal year 2011. We successfully continued the implementation of our business plan, which resulted in a strong growth in our net earnings" said François J Coutu, President and chief Executive Officer. "Our network's continuous expansion and our operations' growth allowed us to partly offset deflationary impact on revenues from the price reduction of generic drugs."

As at February 26, 2011, there were 389 stores in the PJC network of franchised stores.

The Board of the Jean Coutu Group declared a quarterly dividend of $0.06 per share, an increase of 9.1% compared with the previous quarter. This dividend will be paid on May 27, 2011, to all holders of Class A subordinate voting shares and holders of Class B shares listed in the Corporation’s shareholder ledger as of May 13, 2011. This quarterly dividend represents $0.24 per share on an annual basis.

With its operations and financial flexibility, the Corporation is very well positioned to capitalize on the growth in drugstore retail industry. Demographic trends are expected to contribute to the growth in prescription drugs' consumption and to the increased use of pharmaceuticals as the primary intervention in individual healthcare. Management believes that these trends will continue and that the Corporation 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 growth in the number of generic drugs' prescriptions will however have a deflationary impact on retail sales in the pharmacy section but the contribution of Pro Doc will have a positive impact on consolidated margins.

The first implementation date for price reduction of generic drugs announced November 5, 2010 by the "Conseil du medicament du Québec" was December 17, 2010. More price reductions are scheduled until April 2012 to insure that the generic product price is not higher than any selling price granted to other provincial drug insurance programs. The 5% rebates offered by generic drug manufacturers, which represented the distributors' profit margin, were also abolished since last December 17. Therefore, a maximum of 6% administration fees are added to the generic drug price since then, in order to match up with the distributor margin of the innovator products. Furthermore, since April 20, 2011, the administration fee percentage increased from 6% to 6.25% and, starting in April 2012, these fees will increase to 6.50% for generic drugs as well as for innovator products. The consolidated results of the Corporation will be affected by these measures but we believe that the impact will be offset in the short term by normal growth of the Corporation's operations.

Yours truly,

/s/ François J. Coutu

François J. Coutu
President and Chief Executive Officer

Non Canadian-GAAP financial measures

Management used certain non Canadian-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 Canadian GAAP in the related section of the Management's Discussion and Analysis.

Corporate profile

The Jean Coutu Group (PJC) Inc. (*the "Corporation*" 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 Jean Coutu Santé and PJC Jean Coutu 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 Corporation also holds a significant interest in Rite Aid Corporation (''*Rite Aid''*), an American national drugstore chain with more than 4,700 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 specific markets. The Corporation offers high quality products for health, hygiene and beauty, in a friendly and efficient environment. Our strength lies in the reputation of the PJC franchised stores 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 PJC's network of franchised stores

The Jean Coutu Group is the franchisor of one of the leading pharmacy chains in Canada with 389 PJC franchised stores in Quebec, Ontario and New Brunswick. Our franchising activities include operating two distribution centers and providing services to the PJC franchised 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 then available. 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 franchised stores retail sales are not included in our revenues, an increase or decrease in this regard will directly affect our financial performance as it impacts distribution center sales and royalties.

The PJC franchised drugstores filled 70.9 million prescriptions during fiscal 2011, for a weekly average of 3,607 scripts per store. Our position as leader in the pharmacy sector can be attributed to the commitment and professionalism of our franchised pharmacist-owners, the quality of the professional services provided and the geographic location of the PJC franchised stores.

The PJC franchised stores use leading retail design to offer a warm and positive shopping experience for customers. Our preferred PJC franchised 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 the PJC franchised stores, we offer some food and convenience products but we focus mainly on offering a full choice of health and beauty products as well as general merchandise and seasonal products. Furthermore, 11% of the front-end retail sales of the PJC franchised stores comes 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 70 PJC franchised stores.

PJC Network – Retail sales per square foot
The PJC franchised stores' network retail sales per square foot for the 12 month period ending on February 26, 2011 continue to stand out as the best performance in the market. These sales reached $1,328 during that period even when taking into account an increase of 7.3 % of the PJC franchised stores' network total square footage and the deflationary impact on revenues caused by the introduction of the generic version of large volume drugs.

The average PJC franchised store is a leader in the North American drugstore retailing industry with annual sales of $ 11.8 million for fiscal 2011.

STRATEGIC INITIATIVES

Expansion and modernization of the network
During fiscal 2011, we completed several real estate projects in the markets that we serve. We continued to expand our network with the opening of 30 PJC franchised stores, of which 9 were relocations. In addition, 26 PJC franchised stores were renovated or expanded.

Each year, we continue to pursue the development of store planograms in order to enhance the PJC franchised stores' sales environment and to showcase products in attractive areas conducive to meeting customer needs.

Advertising, sponsorship and Internet site
A television ad campaign comprising eight new commercials was introduced in fiscal 2011. This campaign helped reinforce PJC's brand awareness. Several promotional campaigns were also introduced and some of them 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 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 gift boutique.

Furthermore, during fiscal 2011, we launched the first application in Canada allowing the refilling of prescriptions from a smart phone. Designed for iPhones and iPods Touch, the Jean Coutu application offers the user the possibility of having his prescriptions or those of a family member refilled in a few easy steps.

Human resources
The franchised pharmacist-owners and their employees work towards the shared goals of first class customer service and professionalism across the entire PJC network. The Corporation maintains close ties to various Schools of Pharmacy informing students of career opportunities in Jean Coutu affiliated pharmacies and offering them financial support. Furthermore, the Corporation provides its franchised 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, satisfaction at work, development as well as employee retention are key elements of our program. During the year, the Corporation 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 accessible at each of our PJC franchised stores. Newly hired and other staff can learn or brush up on their department's standards of service using these easy-to-access technology enabled tools. The Corporation and its franchised pharmacist-owners are making the necessary investments in the human resources aspect of their activities in order to remain the leading pharmacy sector retailer.

Most admired retailer in Quebec
We are very pleased to report that the Jean Coutu Group was again ranked as the third most admired enterprise 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 sectors and the consulted population is almost unanimous in its positive opinion of the Corporation, which the survey says is attributable to the Jean Coutu Group's relentless focus on quality, service and variety of product offer.

Social Commitment
For many years now, the Jean Coutu Group has taken concrete action to improve the quality of life in those communities where the Jean Coutu network is present. The Corporation supports in a tangible way organizations involved in health and educational programs, more specifically hospital foundations, organizations devoted to advancing medical research projects, as well as hospitals and pharmacy faculties. The Corporation also supports its franchised pharmacist-owners in their respective communities relative to donation programs. The annual budget granted to donations represents some one percent (1%) of the Jean Coutu Group's revenues before taxes.

During fiscal 2011, in addition to the amounts granted to different organizations actively promoting health and educational initiatives, the Jean Coutu Group, its franchised pharmacist-owners, their employees and their customers donated some $ 500,000 to Oxfam Quebec to support the victims of the Haiti earthquake.

Pharmacy services
One of the Jean Coutu network's key objectives is to be recognized as the Number 1 Health destination in retail drugstores. Several programs were developed over the years to enable us to meet that objective. More specifically, the information kits dealing with diabetes, arthritis and the « *I Quit to Win* » Challenge - that aims at encouraging our customers to give up smoking - have been distributed exclusively in the PJC franchised stores for a few years now. These kits are always extremely popular amongst our Jean Coutu affiliated pharmacies' patients.

One of our key initiatives is to continuously improve our use of state-of-the-art technology. Through the enhancement of our Rx-Pro pharmacy support software, we continue to emphasize the advisory role of our franchised pharmacist-owners. This tool allows them 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.

In fiscal 2011, we launched the Caution Hypertension program by which patients suffering from hypertension, or who are at risk of being affected by this condition, can take measurements of their blood pressure in any Jean Coutu affiliated pharmacies. Using a personalized memory card, these measurements are forwarded to a secured Internet site. Each participating patient can see his readings in the form of graphics and print these out. The patient can also share these results with the health professionals of his choice.

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 four 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-store 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

The Jean Coutu network is an important market leader in cosmetics. The cosmetic spaces offer a comprehensive selection of cosmetic lines: popular and prestige brands, a complete selection of dermo-cosmetic products and many very specific care lines named the *Beauty brands*. A wide selection of makeup products, such as two new drugstore exclusives, STUDIOMAKEUP and THE BALM, and a comprehensive offering of fragrances are also available. To remain innovative and abreast of the new needs of consumers, the Jean Coutu network cosmetic offering is constantly evolving.

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*" allows us to enhance and improve the cosmetics offer on an on-going basis. This initiative is in line with our goal of making the PJC franchised stores into destinations focussed on customer wellness, while at the same time increasing our sales in this promising growth market.

During fiscal 2011, 14 new "*Boutiques Passion Beauté*" were added, for a total of 117 boutiques as at February 26, 2011.

Photo Solutions

We are a leading destination for photo services, providing customers with rapid and accessible solutions such as self-serve in-store digital photo printing kiosks and an on-line photo printing service. In addition, creation applications are available on our Internet site for the realization of different printing products and gifts such as photo-personalized coffee mugs, greeting cards, calendars, photobooks, etc. In fiscal 2011, the Jean Coutu network continued to build market share in the photo category to maintain its position as the leading retail digital photo destination in Quebec.

Private Label and Exclusive Line Programs

We strive to continuously innovate by introducing new private brands and exclusive products on a regular basis. Several new product lines and concepts were introduced over the course of the year, more specifically in the health, beauty, over-the-counter medications and candy categories.

During fiscal 2011, we introduced more than 50 new products. For a second year in a row, the candy category stood out with the introduction, this time, of a new line of European imported cookies. In the over-the-counter medication category, new formats and products were introduced that translated into a significant sales increase. We also reviewed the design of some product lines thus generating a renewed interest on the part of our customers and an increase in sales.

Pro Doc – Generic Drug Manufacturer
In December 2007, we undertook to diversify by acquiring Pro Doc, a corporation specialized in the manufacturing of generic drugs.

With a portfolio of about 130 generic molecules and 260 different products, Pro Doc's mission is to supply with drugs the wholesalers, among which The Jean Coutu Group, as well as the Quebec pharmacists.

The generic drugs manufactured by Pro Doc are almost exclusively sold in Quebec under its trademark "*Pro Doc*".

Pro Doc is one of the three leading generic drug manufacturers in Quebec and one of the few suppliers to offer more than 80% of the 100 best-selling generic molecules on the Quebec market.

NEW INITIATIVES IN FISCAL 2012

During fiscal 2012, we will be introducing several new private and exclusive products and we will add to the current lines of products. 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 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 2012, we plan to open 15 new PJC franchised stores, relocate 10 stores, complete 37 renovation and expansion projects and open 9 "*Boutiques Passion Beauté*".

Finally, we will continue to promote the PJC 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 Corporation 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.

During fiscal 2010, the Corporation's share of loss in Rite Aid exceeded the carrying value of its investment. As required by Canadian GAAP, the Corporation 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 Corporation has not guaranteed obligations of Rite Aid and is not committed to provide further financial support. The Corporation holds a 28.3% equity interest in Rite Aid as at February 26, 2011. Readers are referred to the Rite Aid investment section of this Annual Report for more details on their fiscal 2011 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

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

DEFINITIONS

Segmented information
The Corporation has three reportable operating segments: franchising, generic drugs and an investment in Rite Aid, an entity subject to significant influence, which operates in the United States. Within the franchising segment, the Corporation carries on the franchising activity under the banners of PJC Jean Coutu, PJC Clinique, PJC Jean Coutu Santé and PJC Jean Coutu Santé Beauté, operates two distribution centres and coordinates several other services for the benefit of its franchisees. Within the generic drugs segment, the Corporation owns Pro Doc ltée ("Pro Doc"), a Canadian manufacturer who sells generic drugs to wholesalers and pharmacists. The Corporation's revenues according to the geographic areas of Canada and the United States correspond respectively to franchising and generic drugs for the Canada and the investment in Rite Aid for the United States.

Revenues - Franchising
Revenues consist of sales and other revenues derived from franchising activities. Merchandise sales to PJC franchisees mostly through our distribution centres account for the major part 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 rental revenues, revenues from certain services rendered to franchisees and paid royalties from franchisees based on a percentage of their retail sales.

Revenues – Generic drugs
Revenues consist of generic drugs' sale of the subsidiary Pro Doc.

Share of earnings in Rite Aid, a corporation subject to significant influence
The Corporation holds a 28.3% equity interest in Rite Aid and this investment is accounted for under the equity method in which the Corporation records its share of earnings in Rite Aid.

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

NON CANADIAN-GAAP FINANCIAL MEASURES

Management used non Canadian-GAAP financial measures such as:

- Operating income before amortization ("OIBA");
- Earnings (and earnings 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 performance measure under Canadian GAAP. However, management uses this measure in assessing the operating and financial performances of its operations. Besides, we believe that OIBA is an additional measure used by investors to evaluate a Corporation's operating performance and capacity 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. Furthermore, OIBA is not necessarily an indication that cash flow will be sufficient to meet our financial obligations. Finally, our definition of OIBA does not necessarily compare to a similar measure reported by other corporations.

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

(unaudited, in millions of dollars)	**Q4-2011**	Q4-2010	**Fiscal year 2011**	Fiscal year 2010	Fiscal year 2009
	$	$	**$**	$	$
Net earnings (net loss)	**46.4**	42.8	**180.2**	112.6	(1,192.1)
Financing (revenues) expenses	**(0.1)**	0.3	**0.7**	(4.2)	12.6
Share of loss in Rite Aid	**-**	-	**-**	55.2	1,327.0
Income taxes	**20.2**	20.1	**77.6**	74.9	61.8
Operating income	**66.5**	63.2	**258.5**	238.5	209.3
Amortization per financial statements	**4.9**	4.5	**17.6**	17.6	16.1
Amortization of incentives paid to franchisees [1]	**4.2**	3.5	**15.0**	12.7	7.4
Operating income before amortization ("OIBA")	**75.6**	71.2	**291.1**	268.8	232.8

[1] Amortization of incentives paid to franchisees is applied against other revenues in the Consolidated Financial Statements.

Earnings before specific items or earnings per share before specific items

Earnings (or earnings per share) before specific items, earnings (or earnings per share) before specific items and share of loss in Rite Aid are non Canadian-GAAP measures. The Corporation 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 Canadian-GAAP measures provide investors with performance measures to compare its results between periods with no regards to these items. The Corporation's measures excluding certain items have no standardized meaning prescribed by Canadian GAAP and are not necessarily comparable to similar measures presented by other corporations. Therefore, they should not be considered in isolation.

Net earnings and net earnings per share are reconciled hereunder to earnings (and earnings 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)	**Q4-2011**	Q4-2010	**Fiscal year 2011**	Fiscal year 2010	Fiscal year 2009
	$	$	**$**	$	$
Net earnings (net loss)	**46.4**	42.8	**180.2**	112.6	(1,192.1)
Unrealized foreign exchange losses (gains) on monetary items	**(0.1)**	-	**(0.1)**	(0.5)	0.7
Change in fair value of third party asset-backed commercial paper and related options of repayment	**(0.7)**	0.1	**(1.0)**	(4.6)	7.0
Earnings (loss) before specific items	**45.6**	42.9	**179.1**	107.5	(1,184.4)
Share of loss in Rite Aid	**-**	-	**-**	55.2	1,327.0
Earnings before specific items and share of loss in Rite Aid	**45.6**	42.9	**179.1**	162.7	142.6
Net earnings (net loss) per share	**0.20**	0.18	**0.77**	0.48	(4.92)
Change in fair value of third party asset-backed commercial paper and related options of repayment	**-**	-	**-**	(0.02)	0.03
Earnings (loss) per share before specific items	**0.20**	0.18	**0.77**	0.46	(4.89)
Share of loss in Rite Aid	**-**	-	**-**	0.23	5.48
Earnings per share before specific items and share of loss in Rite Aid	**0.20**	0.18	**0.77**	0.69	0.59

GENERAL PERFORMANCE FOR FISCAL YEARS 2011 AND 2010

The Corporation assesses the performance of its franchising and generic drugs segments based on its operating income before amortization "OIBA", which is not a performance measure under Canadian-GAAP. The Corporation records intersegment operations at exchange value. During fiscal year 2011, no share of earnings in Rite Aid was accounted in the Corporation's earnings. Therefore, Rite Aid's financial information disclosed in this MD&A has no impact on the Corporation's financial performance. The investment in Rite Aid is accounted for using the equity method as described in Note 9 of the Corporation's Annual Consolidated Financial Statements. Readers are referred to the "Information on Rite Aid" section of this MD&A for more information.

KEY SEGMENTS RESULTS FOR FISCAL YEARS 2011 AND 2010

(in millions of dollars)	**Fiscal year 2011**	Fiscal year 2010
	$	$
Revenues (1)		
Franchising	**2,591.0**	2,541.1
Generic drugs	**124.5**	79.4
Intersegment sales	**(117.7)**	(77.4)
	2,597.8	2,543.1
Operating income before amortization ("OIBA") (2)		
Franchising	**238.1**	239.1
Generic drugs	**60.1**	34.3
Intersegment eliminations	**(7.1)**	(4.6)
	291.1	268.8

(1) Revenues include sales and other revenues.

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

Revenues

Franchising revenues amounted to $2.591 billion during the fiscal year ended February 26, 2011, compared with $2.541 billion during the fiscal year ended February 27, 2010, an increase of 2.0%. This increase is attributable to overall market growth and the expansion of the PJC network of franchised stores, despite the deflationary impact on revenues from the introduction of the generic version of large volume drugs as well as the price reduction of generic drugs decreed by the Québec government during the fiscal year ended February 26, 2011.

Pro Doc's revenues generated by its generic drugs' sales amounted to $124.5 million during the fiscal year ended February 26, 2011, compared with $79.4 million during the fiscal year ended February 27, 2010, an increase of 56.8%. This increase is attributable to a strong operational performance, to the introduction of the generic version of large volume drugs and to an increase in generic drugs purchased by Québec pharmacists, despite the deflationary impact on revenues from the price reduction of generic drugs decreed by the Québec government during the fiscal year ended February 26, 2011.

OIBA

OIBA from franchising activities amounted to $238.1 million, a decrease of $1.0 million for fiscal year 2011 compared with $239.1 million for fiscal year 2010. This decrease is mostly attributable to the deflationary impact on revenues from the introduction of the generic version of large volume drugs.

Pro Doc's OIBA from sale of generic drugs activities increased by $25.8 million to $60.1 million during fiscal year 2011 compared to $34.3 million during fiscal year 2010. This increase is attributable to a strong operational performance, to the introduction of the generic version of large volume drugs and to an increase in generic drugs purchased by Québec pharmacists.

RESULTS FOR FISCAL YEARS 2011, 2010 AND 2009

SELECTED CONSOLIDATED FINANCIAL INFORMATION FOR FISCAL YEARS 2011, 2010 AND 2009

The following table presents selected financial information and consolidated operating results for the fiscal years ended February 26, 2011, February 27, 2010 and February 28, 2009. Some figures of fiscal year 2009 were reclassified to conform to the adopted presentation of fiscal years 2010 and 2011.

(in millions of dollars, except per share amounts)	**Fiscal year 2011**	Fiscal year 2010	Fiscal year 2009
	$	$	$
Sales	**2,348.7**	2,298.4	2,131.9
Other revenues (1)	**249.1**	244.7	237.4
Revenues (2)	**2,597.8**	2,543.1	2,369.3
Gross profit	**257.1**	229.5	191.6
Operating income before amortization ("OIBA")(3)	**291.1**	268.8	232.8
Share of loss in Rite Aid	**-**	55.2	1,327.0
Net earnings (loss)	**180.2**	112.6	(1,192.1)
Per share	**0.77**	0.48	(4.92)
Earnings before specific items and share of loss in Rite Aid (3)	**179.1**	162.7	142.6
Per share	**0.77**	0.69	0.59
Cash dividend per share	**0.22**	0.18	0.16
Total asset	**1,045.4**	984.9	1,014.4
Long-term debt (4)	**184.8**	199.9	275.7

(1) Including amortization of incentives paid to franchisees.

(2) Revenues include sales and other revenues.

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

(4) Long-term debt includes the short term portion of debt.

Comparison of consolidated results for the fiscal years ended February 26, 2011, February 27, 2010 and February 28, 2009

Revenues

Sales amounted to $2.349 billion during the fiscal year ended February 26, 2011, compared with $2.298 billion during the fiscal year ended February 27, 2010, an increase of 2.2%. This increase is attributable to overall market growth and the expansion of the PJC network of franchised stores, despite the deflationary impact on revenues from the introduction of the generic version of large volume drugs as well as the price reduction of generic drugs decreed by the Québec government during the fiscal year ended February 26, 2011.

During fiscal year 2010, sales had increased by $166.5 million to $2.298 billion compared with $2.132 billion during fiscal year 2009. This increase was attributable to overall market growth and the expansion of the PJC network of franchised stores. Furthermore, the consumer's cautiousness in view of the A(H1N1) flu had contributed to the increase in non-prescription drugs.

Other revenues amounted to $249.1 million during fiscal year 2011 compared with $244.7 million during fiscal year 2010. Other revenues had increased by 3.1% during fiscal year 2010 compared with fiscal year 2009. These increases are attributable to an increase in rental revenues and other services related to the expansion of the PJC network of franchised stores.

Gross profit

Gross profit amounted to $257.1 million during fiscal year 2011 compared with $229.5 million during fiscal year 2010, an increase of 12.0%. Gross profit had increased by $37.9 million or 19.8% during fiscal year 2010 compared with fiscal year 2009. For fiscal year 2011, gross margin, calculated as percentage of sales, was 10.9% compared with 10.0% during fiscal year 2010 and 9.0% during fiscal year 2009. These increases in gross margin are mainly attributable to the additional gross margin generated by Pro Doc operations.

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

OIBA

OIBA increased by $22.3 million to $291.1 million during the fiscal year ended February 26, 2011, compared with $268.8 million for the fiscal year ended February 27, 2010. This increase is mostly attributable to a strong operational performance in the franchising activities and of the subsidiary Pro Doc Ltd, despite the deflationary impact on revenues from the price reduction of generic drugs decreed by the Québec government during the fiscal year ended February 26, 2011. OIBA as a percentage of revenues was 11.2% for fiscal year 2011 compared with 10.6% for fiscal year 2010

During the fiscal year ended February 27, 2010, OIBA had increased by $36.0 million to $268.8 million compared with $232.8 million during the fiscal year ended February 28, 2009. This increase is mostly attributable to a strong operational performance in the franchising activities and of the subsidiary Pro Doc Ltd. OIBA as a percentage of revenues was 10.6% for fiscal year 2010 compared with 9.8% for fiscal year 2009.

Financing expenses (revenues)

Financing expenses amounted to $0.7 million during fiscal year 2011 compared with financing revenues of $4.2 million recorded during fiscal year 2010 and with financing expenses of $12.6 million recorded during fiscal year 2009. Financial expenses for fiscal year 2011 mostly included interests on long-term debt, whereas financing revenues for fiscal year 2010 were mainly attributable to the recording of a gain in value with respect to the third party asset-backed commercial paper. Financial expenses for fiscal year 2009 were related to the debt incurred during fiscal years 2008 and 2009 to allow the Corporation 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 Note 4 of the Consolidated Financial Statements for fiscal year 2011 for more information on financing expenses and revenues.

Share of earnings in Rite Aid, a corporation subject to significant influence
No share of loss in Rite Aid was accounted in the Corporation's earnings during fiscal year 2011 compared with $55.2 million ($0.23 per share) during fiscal year 2010 and $1.327 billion ($5.48 per share) during fiscal year 2009. These were non-cash charges.

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

Income tax expense
Income tax expense amounted to $77.6 million during fiscal year 2011 compared with $74.9 million during fiscal year 2010 and $61.8 million during fiscal year 2009.

Net earnings (net loss)
Net earnings for the fiscal year ended February 26, 2011 amounted to $180.2 million ($0.77 per share) compared with $112.6 million ($0.48 per share) for the fiscal year ended February 27, 2010. For the fiscal year ended February 28, 2009, the Corporation suffered a net loss of $1.192 billion ($4.92 per share) 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 $179.1 million ($0.77 per share) during fiscal year 2011 compared with $162.7 million ($0.69 per share) during fiscal year 2010, an increase of 10.1%. Earnings before specific items and share of loss in Rite Aid had increased by $20.1 million or 14.1% during fiscal year 2010 compared with fiscal year 2009.

INFORMATION ON THE PJC NETWORK OF FRANCHISED STORES

Within the franchising segment, the Corporation carries on the franchising activity under the banners of PJC Jean Coutu, PJC Clinique, PJC Jean Coutu Santé and PJC Jean Coutu 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 store and are responsible for merchandising and financing their inventory. They must provision their store from our distribution centres, provided that products ordered are available. The financial results of the PJC franchised stores are not included in the Corporation's Consolidated Financial Statements.

Network performance *(unaudited)*	**Q4-2011**	Q4-2010	**Fiscal year 2011**	Fiscal year 2010
Retail sales *(in millions of dollars)*	**$988.5**	$951.3	**$3,778.5**	$3,637.2
Retail sales per square foot *(in dollars)* [1]	**$1,328**	$1,374		
Retail sales per sector *(in percentage)*				
Pharmacy, prescription drugs	**62%**	62%	**63%**	63%
Front-end, non-prescription drugs	**9%**	9%	**9%**	9%
Front-end, general merchandise	**29%**	29%	**28%**	28%
Retail sales growth *(in percentage)*				
Total stores				
Total	**3.9%**	5.8%	**3.9%**	7.0%
Pharmacy	**3.4%**	6.7%	**3.9%**	8.3%
Front-end	**4.2%**	4.4%	**3.2%**	5.1%
Same store [2]				
Total	**1.4%**	3.8%	**1.6%**	4.5%
Pharmacy	**0.9%**	4.8%	**1.9%**	5.7%
Front-end	**1.5%**	2.2%	**0.3%**	2.8%

[1] The last 12-month store sales are divided by the weighted average square footage for this period.

[2] Same store means a store that operated throughout the current fiscal year as well as the previous fiscal year.

Retail sales increase reflects overall market growth and openings, renovations and relocations of franchised stores of the PJC network.

During fiscal year 2011, on a same-store basis, PJC network retail sales grew by 1.6%, pharmacy sales gained 1.9% and front-end sales increased by 0.3% compared with the previous fiscal year. During fiscal year 2011, sales of non-prescription drugs, which represented 9% of total retail sales, increased by 3.2%, whereas these sales had increased by 8.1% during the previous fiscal year. Customers' cautiousness in view of the A(H1N1) flu had contributed to the increase in non-prescription drugs during the previous fiscal year.

Following the introduction of the generic version of large volume drugs over the last 12 months, generic drugs reached 55.6% of drugs' prescriptions during the fourth quarter of fiscal year 2011 compared with 51.2% during the same quarter of the previous fiscal year. The increase in the number of generic drugs' prescriptions with lower selling prices had a deflationary impact on the pharmacy's retail sales. Therefore, the introduction of new generic drugs reduced pharmacy's retail sales growth by 3.4% and the price reduction of generic drugs decreed by the Québec government reduced pharmacy's retail sales growth by 1.0% during the fourth quarter of fiscal year 2011.

Expansion of the PJC network of franchised stores

During fiscal year 2011, there were 30 store openings in the PJC network of franchised stores, including 9 relocations and there were 2 stores closed, compared with 22 openings, including 5 relocations during the previous fiscal year.

QUARTERLY RESULTS

SELECTED CONSOLIDATED FINANCIAL INFORMATION FOR THE QUARTERS ENDED FEBRUARY 26, 2011 AND FEBRUARY 27, 2010

The following table presents selected data and operating results for the quarters ended February 26, 2011 and February 27, 2010.

(unaudited, in millions of dollars, except per share amounts)	**Q4-2011**	Q4-2010
	$	$
Sales	**591.4**	573.7
Other revenues (1)	**64.2**	63.3
Revenues (2)	**655.6**	637.0
Gross profit	**66.2**	59.8
Operating income before amortization ("OIBA") (3)	**75.6**	71.2
Share of loss in Rite Aid	**-**	-
Net earnings	**46.4**	42.8
Per share	**0.20**	0.18
Earnings before specific items and share of loss in Rite Aid (3)	**45.6**	42.9
Per share	**0.20**	0.18

(1) Including amortization of incentives paid to franchisees.

(2) Revenues include sales and other revenues.

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

COMPARISON OF THE CONSOLIDATED QUARTERLY RESULTS FOR THE PERIODS ENDED FEBRUARY 26, 2011 AND FEBRUARY 27, 2010

Revenues

Sales amounted to $591.4 million during the fourth quarter of fiscal year ended February 26, 2011, compared with $573.7 million during the fourth quarter of fiscal year ended February 27, 2010, an increase of 3.1%. This increase is attributable to overall market growth and the expansion of the PJC network of franchised stores, despite the deflationary impact on revenues from the introduction of the generic version of large volume drugs as well as the price reduction of generic drugs decreed by the Québec government during the fiscal year ended February 26, 2011.
Other revenues amounted to $64.2 million during the fourth quarter of fiscal year 2011 compared with $63.3 million during the fourth quarter of fiscal year 2010. This increase is attributable to the rise in rental revenues and other services related to the expansion of the PJC network of franchised stores.

Gross profit

In the fourth quarter of fiscal year 2011, gross profit amounted to $66.2 million compared with $59.8 million during the fourth quarter of the previous fiscal year, an increase of 10.7%. For the fourth quarter ended February 26, 2011, gross margin calculated as percentage of sales was 11.2% compared with 10.4% during the same period of the previous year. The gross margin increase is mainly attributable to additional gross margin generated by Pro Doc operations.

OIBA

OIBA increased by $4.4 million to $75.6 million for the fourth quarter of fiscal year 2011 compared with $71.2 million for the fourth quarter of fiscal year 2010. This increase is mostly attributable to a strong operational performance in the franchising activities and of the subsidiary Pro Doc, despite the price reduction of generic drugs decreed by the Québec government during the fiscal year ended February 26, 2011. OIBA as a percentage of revenues ended the fourth quarter of fiscal year 2011 at 11.5% compared with 11.2% for the fourth quarter of previous fiscal year.

Financing expenses (revenues)

Financing revenues amounted to $0.1 million during the fourth quarter of fiscal year 2011, compared with financing expenses of $0.3 million recorded during the fourth quarter of fiscal year 2010.

Share of earnings in Rite Aid, a Corporation subject to significant influence

No share of loss in Rite Aid was accounted in the Corporation’s earnings during the fourth quarter of fiscal year 2011 as well as during the fourth quarter of previous fiscal year.

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

Net earnings

Net earnings during the fourth quarter ended February 26, 2011 amounted to $46.4 million ($0.20 per share) compared with $42.8 million ($0.18 per share) during the fourth quarter of fiscal year 2010.

Earnings before specific items and share of loss in Rite Aid amounted to $45.6 million ($0.20 per share) during the fourth quarter of fiscal year 2011 compared with $42.9 million ($0.18 per share) during the fourth quarter of fiscal year 2010.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

(unaudited, in millions of dollars, except per share amounts)	**Q4-2011**	Q3-2011	Q2-2011	Q1-2011	Q4-2010	Q3-2010	Q2-2010	Q1-2010
	$	$	$	$	$	$	$	$
Revenues								
Franchising	**653.7**	676.2	618.6	642.5	636.4	677.7	608.2	618.8
Generic drugs	**23.5**	38.8	39.2	23.0	29.7	16.2	12.2	21.3
Intersegment sales	**(21.6)**	(37.7)	(35.8)	(22.6)	(29.1)	(15.8)	(11.7)	(20.8)
	655.6	677.3	622.0	642.9	637.0	678.1	608.7	619.3
Operating income before amortization ("OIBA") [1]								
Franchising	**61.5**	61.3	55.0	60.3	61.6	63.1	55.1	59.3
Generic drugs	**11.4**	18.3	20.6	9.8	14.1	6.8	4.1	9.3
Intersegment eliminations	**2.7**	(3.5)	(6.3)	-	(4.5)	1.6	2.2	(3.9)
	75.6	76.1	69.3	70.1	71.2	71.5	61.4	64.7
Share of loss in Rite Aid	**-**	-	-	-	-	-	24.3	30.9
Net earnings	**46.4**	48.0	42.6	43.2	42.8	44.6	14.9	10.3
Per share	**0.20**	0.21	0.18	0.18	0.18	0.19	0.07	0.04
Earnings before specific items and share of loss in Rite Aid [1]	**45.6**	47.2	42.8	43.5	42.9	44.2	37.1	38.5
Per share	**0.20**	0.21	0.18	0.18	0.18	0.19	0.16	0.16
Weighted average number of shares, diluted	**230.9**	233.4	234.2	236.2	236.3	236.2	236.2	236.0

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

INFORMATION ON RITE AID

Investment in Rite Aid, a corporation subject to significant influence

The Corporation holds an equity interest of 28.3% (February 27, 2010 - 28.4%) in Rite Aid Corporation ("Rite Aid"), one of the United States' leading drugstore chains, operating over 4,700 drugstores. The equity interest in Rite Aid represents an investment subject to significant influence, which is accounted for using the equity method since its acquisition on June 4th, 2007. As at February 26, 2011, the quoted market value of equity interest in Rite Aid was US$322.5 million (February 27, 2010 - US$383.0 million).

During the fiscal year ended February 27, 2010, the Corporation's share of loss in Rite Aid has exceeded the carrying value of its investment. As required by Canadian GAAP, the Corporation 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 Corporation has not guaranteed Rite Aid's obligations and is not committed to provide it with further financial support. For the quarter ended February 26, 2011 and for the fiscal year 2011, the Corporation's unrecognized share of loss in Rite Aid amounted to $60.9 and $160.6 million respectively. As at February 26, 2011, the Corporation's total unrecognized share of loss in Rite Aid amounted to $250.0 million (February 27, 2010 - $89.4 million).

The following selected financial information as well as the consolidated statements of operations were extracted from April 7, 2011's press release disclosing Rite Aid's results for the 13- and 52-week periods ended February 26, 2011.

Selected Financial Information - Summary Consolidated Balance Sheets – Rite Aid

(in millions of US dollars and under US GAAP)	**February 26, 2011**	February 27, 2010
	$	$
Current assets	**4,411.4**	4,508.7
Property, plant and equipment, net	**2,039.4**	2,293.1
Other intangibles, net	**646.2**	823.1
Other assets	**458.9**	425.0
Total assets	**7,555.9**	8,049.9
Current liabilities	**2,420.3**	2,175.7
Long-term debt	**6,156.8**	6,319.4
Other long-term liabilities	**1,190.1**	1,228.4
Stockholders' deficit	**(2,211.3)**	(1,673.6)
Total liabilities and stockholders' equity	**7,555.9**	8,049.9

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 Rite Aid's balance sheets using the Canadian GAAP:

(unaudited, in millions of US dollars)	**February 26, 2011**	February 27, 2010
	$	$
Total assets	**8,299.5**	8,735.0
Total liabilities	**9,591.8**	9,525.9
Stockholders' deficit	**(1,292.3)**	(790.9)

RITE AID'S CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE FISCAL AND QUARTER PERIODS ENDED FEBRUARY 26, 2011 AND FEBRUARY 27, 2010

(in millions of US dollars, except per share amounts and under US GAAP)	**Q4-2011[(1)]**	Q4-2010[(1)]	**Fiscal year 2011**	Fiscal year 2010
	$	$	**$**	$
Revenues	**6,456.5**	6,463.8	**25,214.9**	25,669.2
Costs and expenses				
Cost of goods sold	**4,755.5**	4,788.4	**18,522.4**	18,845.0
Selling, general and administrative expenses	**1,630.1**	1,641.6	**6,457.8**	6,603.4
Lease termination and impairment charges	**154.0**	77.2	**210.9**	208.0
Interest expense	**132.5**	141.7	**547.6**	515.8
Loss on debt modifications and retirements, net	**-**	-	**44.0**	1.0
Loss (gain) on sale of assets, net	**(11.4)**	1.5	**(22.2)**	(24.1)
	6,660.7	6,650.4	**25,760.5**	26,149.1
Loss from continuing operations before income taxes	**(204.2)**	(186.6)	**(545.6)**	(479.9)
Income tax expense	**1.5**	21.8	**9.8**	26.8
Net loss	**(205.7)**	(208.4)	**(555.4)**	(506.7)
Basic and diluted loss per share	**(0.24)**	(0.24)	**(0.64)**	(0. 59)

(1) Unaudited quarterly financial information

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 Rite Aid's statements of operations using the Canadian GAAP:

(unaudited, in millions of US dollars)	**Q4-2011**	Q4-2010	**Fiscal year 2011**	Fiscal year 2010
	$	$	**$**	$
Revenues	**6,456.5**	6,463.8	**25,214.9**	25,669.2
Net loss	**(205.4)**	(168.6)	**(512.7)**	(424.0)

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 9 of the Corporation's Consolidated Financial Statements for fiscal year 2011 for further information on its investment in Rite Aid.

LIQUIDITY

The Corporation's cash flows are generated by: i) merchandise sales and rental revenues from PJC franchised stores, ii) collection of royalties from PJC franchisees and iii) rent from properties leased to third parties 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 Corporation'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 26, 2011 and February 27, 2010. Some prior fiscal year's figures have been reclassified to conform to the adopted current fiscal year presentation.

(unaudited, in millions of dollars)	**Fiscal year 2011**	Fiscal year 2010
	$	$
Cash flow provided by operating activities	**213.5**	202.8
Cash flow used in investing activities	**(89.6)**	(79.9)
Cash flow used in financing activities	**(127.1)**	(115.0)

COMPARISON OF THE CONSOLIDATED INFORMATION ON LIQUIDITY FOR THE FISCAL YEARS ENDED FEBRUARY 26, 2011 AND FEBRUARY 27, 2010

Cash flow related to operating activities

Cash flow provided by operating activities amounted to $213.5 million during fiscal year 2011 compared with $202.8 million during fiscal year 2010. Readers are referred to Note 24 of the Consolidated Financial Statements for fiscal year 2011 for a listing of the net changes in non-cash asset and liability items.

Cash flow related to investing activities

Cash flow used in investing activities during fiscal year 2011 amounted to $89.6 million compared with $79.9 million during fiscal year 2010. During the fiscal year ended February 26, 2011, $43.9 million were used to acquire capital assets and $45.5 million for other long-term assets, whereas, in the fiscal year ended February 27, 2010, $46.9 million were used to acquire capital assets and $27.2 million for other long-term assets. During fiscal year 2011, 30 new stores were opened in the PJC franchised stores network, including the relocation of 9 stores, and 26 stores were expanded or renovated.

Cash flow related to financing activities

Cash flow used for financing activities during fiscal year 2011, amounted to $127.1 million compared with $115.0 million used during fiscal year 2010. During the fiscal year ended February 26, 2011, $15.1 million were used to reimburse the Corporation’s revolving credit facilities compared with $69.8 million during fiscal year 2010. Furthermore, during fiscal year 2011 $60.8 million were used to redeem Class A subordinate voting shares. The Corporation paid a quarterly dividend of $0.055 per Class A subordinate voting share and Class B share during the fiscal year ended February 26, 2011 for a total of $51.4 million (annualized dividend of $0.22 per share). The Corporation had paid a quarterly dividend of $0.045 per Class A subordinate voting share and Class B share for a total of $42.5 million during the fiscal year ended February 27, 2010 (annualized dividend of $0.18 per share).

THIRD PARTY ASSET-BACKED COMMERCIAL PAPER

On February 26, 2011, the Corporation held third party asset-backed commercial paper ("ABCP") with a nominal value of $30.5 million ($0.4 million of which is denominated in US dollars). As at February 26, 2011, nominal value of Master Asset Vehicles ("MAV") II and MAV III notes are $24.2 million (A1 - $10.4 million, A2 - $10.3 million, B - $1.9 million, C - $0.7 million and $0.9 million of ineligible assets tracking notes) and $6.3 million ($0.4 million of traditional assets tracking notes and $5.9 million of ineligible assets tracking notes), respectively.

These ABCP are recorded at their fair value, which was $20.2 million as of February 26, 2011 ($19.8 million as at February 27, 2010). As at February 26, 2011, the total loss in value recorded was $10.3 million representing 34% of the ABCP's nominal value at that date. The change in fair value of ABCP is presented in Note 8 of the Corporation’s Consolidated Financial Statements for fiscal year 2011.

The Corporation assessed its ABCP as at February 26, 2011. Since there is no active market for ABCP, the Corporation 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 Corporation’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 Corporation tested the sensitivity of its ABCP valuation model, and a 100 basis point increase in the discount rate would result in a 4.2% or $0.8 million pre-tax decrease in the fair value of these investments.

The Corporation 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 the Corporation’s financial condition as a result of the ABCP liquidity issue.

CAPITAL STOCK

On April 29, 2010, the Corporation announced its intention to purchase for cancellation, if it is considered advisable, up to 11,110,000 of its outstanding Class A subordinate voting shares, representing approximately 10% of the current public float of such shares, over a 12-month period ending no later than May 3, 2011. The shares were or will be purchased through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

For the 13-week period ended February 26, 2011, the Corporation purchased 1,622,200 Class A subordinate voting shares at an average price of $9.66 per share for a total consideration of $15.7 million including related costs. An amount of $7.1 million representing the excess of the purchase price over the carrying value of the purchased shares was included in deficit.

For the fiscal year ended February 26, 2011 the Corporation purchased 6,819,900 Class A subordinate voting shares at an average price of $9.23 per share for a total consideration of $63.0 million including related costs. An amount of $26.4 million representing the excess of the purchase price over the carrying value of the purchased shares was included in deficit. The shares purchased during the fiscal year ended February 26, 2011 were cancelled.

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

On May 25, 2010, the Corporation issued 3,000,000 Class A subordinate voting shares, due to the exercise of exchange privilege of 3,000,000 Class B shares against Class A subordinate voting shares on the basis of one Class A subordinate voting share for each Class B share exchanged.

Following the stock options exercised, 23,616 Class A subordinate voting shares were issued for the fiscal year ended February 26, 2011 (308,676 in 2010).

As at February 26, 2011, the total number of Class A subordinate voting shares (TSX: PJC.A.) issued and outstanding was 115.4 million (118.9 million as at February 27, 2010), and the number of Class B shares was 114.4 million (117.4 million as at February 27, 2010). Thus, the total number of outstanding shares was 229.8 million as at February 26, 2011, compared with 236.3 million as at February 27, 2010.

As at April 27, 2011, the total number of Class A subordinate voting shares (TSX: PJC.A.) issued and outstanding was 115.1 million (118.9 million as at April 27, 2010), and the number of Class B shares was 114.4 million (117.4 million as at April 27, 2010). Thus, the total number of outstanding shares was 229.5 million as at April 27, 2011, compared with 236.3 million as at April 27, 2010.

Furthermore, as at April 27, 2011, 2.0 million of Class A subordinate voting shares stock options were outstanding compared with 1.9 million outstanding as at April 27, 2010.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents a summary of the Corporation's main contractual cash obligations as at February 26, 2011, for the fiscal years indicated under our long-term debt, long-term leases, inventories, services and capital assets commitments:

(in millions of dollars)	**2012**	**2013-2014**	**2015-2016**	**2017 and thereafter**	**Total**
	$	$	$	$	$
Operating lease obligations (non-cancellable future minimum payments)	40.5	75.3	70.3	238.2	424.3
Other commercial commitments (minimum payments payable)	20.5	5.4	2.6	-	28.5
Total	61.0	80.7	72.9	238.2	452.8

The revolving credit facility amounting to $500.0 million of which $185.3 million were used as at February 26, 2011, will be maturing during the fiscal year ended March 2, 2013.

The Corporation also has accrued benefit obligations of $20.9 million regarding its defined benefit pension plans, without a fixed maturity date.

Long-term debt
As at February 26, 2011, the long-term debt, borrowed under the revolving credit facility, amounted to $184.8 million compared with a $199.9 million long term debt as at February 27, 2010. For further details, readers are referred to Note 13 of fiscal year 2011 Consolidated Financial Statements.

As at February 26, 2011, an amount of $314.7 million of the $500.0 million available from the revolving credit facility was still unused ($299.7 million of the $500.0 million as at February 27, 2010). As at February 26, 2011, the total amount of $16.1 million of the revolving term credit facilities was available whereas as at February 27, 2010, the revolving term credit facilities of $16.5 million were unused. The Corporation does not expect any liquidity issues. The Corporation has operating liquidities and has access to credit facilities in order to finance its projects. As at February 26 2011, all of its bank covenants were respected.

Operating lease obligations
The Corporation leases a substantial portion of its buildings using conventional operating leases. Generally, the Corporation's real estate leases are for primary terms of 5 to 20 years with renewing options.

The future minimum payments under the non-cancellable operating lease obligations, amount to $424.3 million and are mostly in connection with leased buildings. The Corporation also has signed lease and sublease agreements under which it will receive non-cancellable future minimum payments totalling $486.5 million. These payments are not included in the table of contractual obligations above.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

The Corporation 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 Corporation uses operating leases for many of its properties, and, from time to time, engages in sale-leaseback transactions for financing purposes.

In its normal course of business, the Corporation is exposed to a certain interest rates fluctuation risk, due to its variable rates' financial obligations. Depending on the interest rate of the economic situation, the Corporation may, in the future, use derivative financial instruments or other interest rate management vehicles.

Guarantees and buyback agreements
On June 4, 2007, the Corporation sold its US Operations to Rite Aid. As part of this transaction, the Corporation 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 Corporation, Inc. on July 31, 2004. Some of the indemnification guarantees are not limited in time. In addition, certain portions of the Corporation's indemnification guarantees are capped at US$450 million, while other provisions are not subject for such a limit.

The Internal Revenue Service ("IRS") issued tax audit reports of fiscal years 2004 to 2007 for the US Operations sold to Rite Aid. The Corporation initiated the appeal process concerning these audits' results. Although audit's final outcome cannot be determined with certainty, the Corporation believes its provision for potential tax indemnification resulting from these audits is sufficient. The Corporation is unable to estimate potential liability for other types of indemnification guarantees as these amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

As at February 26, 2011, the Corporation had guaranteed the reimbursement of certain bank loans contracted by franchisees for a maximum amount of $3.4 million. Most of those guarantees apply to loans with a maturity of one year. These loans are also personally guaranteed by the franchisees.

The Corporation has also entered into commitments with financial institutions to buy back the equipment and inventories of some of its franchisees under certain conditions. As at February 26, 2011, financing related to the equipment and inventories buyback agreements were $69.0 million and $116.6 million respectively. Historically, the Corporation has not made any indemnification payments under such agreements and no amounts have been accrued with respect to these guarantees in its Consolidated Financial Statements as at February 26, 2011 and February 27, 2010.

Contingencies
In the normal course of its operating activities, the Corporation is involved in various claims and legal proceedings. Although the outcome of these proceedings cannot be determined with certainty, management estimates that any responsibility resulting from such contingencies are not likely to have a substantial negative impact on the Corporation's consolidated financial statements. The Corporation limits its exposure by subscribing to insurance policies and by getting indemnification commitments from some of its major suppliers to cover some risk of claims related to its activities.

Also, during the fiscal years 2009 and 2011, the Corporation was named as a defendant in two actions instituted against it by the same franchisee. 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 and claims the reimbursement of royalties paid on the sale of medications and damages. The Corporation contests the grounds upon which these actions are 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 these lawsuits or to determine the amount of any potential losses, if any. No provision for contingent loss has been recorded in the Corporation'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 rate 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.

As at February 26, 2011 and February 27, 2010, the Corporation'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.

RELATED PARTY TRANSACTIONS

Franchising activities include transactions with enterprises controlled by an executive with significant influence on the Corporation. Mr. François J. Coutu, President and Chief Executive Officer of the Corporation, held a participation in 3 PJC franchises as at February 26, 2011 (2 as at February 27, 2010). The transactions between the Corporation and these enterprises are carried out in the normal course of business and are measured at the exchange value.

CHANGES IN ACCOUNTING POLICIES

There were some changes in accounting policies that may have a material impact on the Corporation'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 Corporation's consolidated balance sheet. Accordingly, prior period's figures have been reclassified to conform to 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 in section 3064 are unchanged from the standards included in the previous Section 3062**.** The Corporation has adopted this Section as of March 1st, 2009. The adoption of this new Section had no material impact on the Corporation'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 are effective for annual financial statements of the fiscal year ending after September 30, 2009. Accordingly, the Corporation has adopted the additional disclosures in its annual financial statements for the fiscal year ending February 27, 2010. Additional information have been presented in Note 23, "Financial instruments disclosure".

Future accounting standards

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 Corporation'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 Corporation will prepare both the current and comparative financial information using IFRS. Accordingly, the February 26, 2011 financial statements are the last financial statements prepared in accordance with Canadian GAAP. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

The Corporation's IFRS convergence project includes three steps:

- Planning and diagnosis: The Corporation 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 had a material impact for the Corporation. Also, the Corporation retained the services of independent advisors to facilitate the management of the project and to assist employees with technical matters and training.

- Analysis and design of accounting policies: The Corporation has 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 Corporation has established the impact of these differences on its accounting policies, information systems, processes and controls.

- Implementation and execution: The Corporation has substantially completed the implementation of 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 processes. Accounting policies, including transitional exemptions under the provisions of IFRS 1 First time adoption of IFRS, have also been approved during this stage.

Project governance and disclosure
During fiscal year 2010, upon recommendation of the steering committee, the Corporation has presented its analysis of the differences in standards and of the accounting policy choices potentially having a material impact on the financial statements of the Corporation, as well as its choices of transitional exemptions under the provisions of IFRS 1 First time adoption of IFRS to its audit committee for approval. The audit committee has approved these choices. The Corporation has also presented to its audit committee a preliminary unaudited opening consolidated balance sheet reflecting the choices made and the estimates made at the end of the fourth quarter of fiscal 2010. The preliminary interim consolidated statements of earnings and consolidated balance sheet for the fiscal year ending February 26, 2011, were presented to the audit committee during the audit committee meeting of 2010-2011. The preliminary model of IFRS interim financial statements of the fiscal year 2012 was presented to the audit committee meeting of January 6, 2011. Quantification of identified differences has not been audited.

Business activities
The review of major contracts is completed and the Corporation does not anticipate any major impacts. The short-term compensation programs fluctuate, among others, based on the compliance with the budget. Since the fiscal year 2011 results and fiscal year 2012 budget are prepared under IFRS, the Corporation does not anticipate any impact on the calculation of amounts related to these programs.

Systems, processes and internal controls
The impacts on processes and systems have been reviewed and the required adjustments are substantially completed. These adjustments will be completed during the first quarter of fiscal year 2012. In particular, a project to establish a new fixed assets ledger is substantially completed. A special procedure is implemented during fiscal year 2011 to produce two sets of financial statements in parallel. To do so, the Corporation use its current consolidation system and manual processes. Additional internal controls regarding financial reporting may be required to meet the specific activities surrounding the first adoption. In addition, the Corporation's internal control processes, as currently designed, will not need significant modifications following the transition to IFRS.

Training
To date, training sessions were provided to key personnel of the Corporation. In addition, the steering committee and the audit committee have received training on the major differences between Canadian GAAP and IFRS that may affect the Corporation's financial statements, as well as the expected impact of each of these differences and the choices available to the Corporation when applicable. Additional specific training have been given to staff during the fiscal year 2011 based on changes in accounting policies, systems and processes.

The following paragraphs describe the major differences that are likely to impact the Corporation and some preliminary conclusions. The differences listed below are not exhaustive and represent only the highlights of the major differences identified by the Corporation at the moment.

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 Corporation will continue to use the cost model.

Under IFRS, property and equipment have to be amortized according to their components. Under Canadian GAAP, component identification rules are less stringent. The Corporation identified new components that will be amortized separately under IFRS for its buildings. At the transition date, the carrying value of these properties calculated according to IFRS will be lower than the one calculated under Canadian GAAP by approximately $27.0 million in the opening consolidated balance sheet of the Corporation.

Investment property
Under Canadian GAAP, there is no definition and specific standard for investment property. Some of the buildings held for leasing of the Corporation meet the definition of investment property.

Under IFRS, investment property may be valued under a cost or fair value model. The buildings affected by this difference are currently being evaluated by the cost model in Canadian GAAP. The Corporation will continue to use the cost model. The vast majority of the Corporation's buildings held for leasing will be presented as property and equipment and not as investment property.

Banner development costs (incentives paid to franchisees)
Under Canadian GAAP, incentives paid to franchisees are considered as considerations paid to franchisees. They are amortized over a ten year period and are applied against royalties included in other revenues.

Under IFRS, incentives paid to franchisees will be considered as banner development costs to better reflect their economic substance and will be amortized to earnings included in amortization, over their estimated useful life of 25 years. At the transition date, this will result in an increase of approximately $40.0 million of intangible assets in the opening consolidated balance sheet of the Corporation.

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 past service costs vested at the transition date will be recognized to deficit in the opening consolidated balance sheet. The past service costs vested totalling approximately $3.3 million as at February 27, 2010 that are included in the accrued benefit assets under Canadian GAAP will therefore be reclassified to deficit in the opening consolidated balance sheet.

IAS 19, Employee Benefits, allows certain actuarial gains and losses to be either deferred and amortized, subject to corridor approach, immediately recognized through earnings or comprehensive income in equity. The Corporation will recognize its actuarial gains and losses immediately through comprehensive income in 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 gain or loss from a sale is deferred and recorded in earnings over the duration of the lease. 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 gain or loss shall be recognised immediately.

In its transitional balance sheet, the Corporation has, in the other long-term liabilities, deferred revenue related to sale and leaseback transactions that would have been recognized immediately as a gain under IFRS. Consequently, the other long-term liabilities will be reduced by approximately $16.6 million and accounts payable and accrued liabilities will be reduced by approximately $1.5 million in the Corporation's opening consolidated balance sheet.

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; if first step is not conclusive then measuring any impairment by comparing asset carrying values with fair values. IAS 36, Impairment of Assets, uses a one-step approach testing for 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-downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis. The Corporation estimates that the impact of this impairment difference will not generate significant adjustment in the opening consolidated balance sheet.

IFRS also requires the reversal of an impairment loss, except for goodwill, 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 generate cash inflows that are largely independent of the cash inflows from other assets or group of assets. The Corporation has identified its cash generating units and determined that this change would not materially impact the Corporation's basis for evaluating the impairment of its goodwill.

IFRS requires the Corporation 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. At the transition date, this will result in a decrease of approximately $2.3 million of investment property in the opening consolidated balance sheet.

Stock-based compensation
Under Canadian GAAP, the Corporation use to consider gradually vested stock options as a single award and also recognise forfeitures of awards as they occur.

Under IFRS, each tranche is to be considered a separate award. The share-based compensation expense will be recognized over the expected term of each vested tranche. An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. The expected impact on this expense is not significant for the Corporation.

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 Corporation has decided to 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 apply IAS 16 Property, plant and equipment retrospectively. The Corporation has decided to not use this exemption and apply IAS 16 retrospectively.

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 Corporation to determine actuarial gains and losses from the date the benefit plans were established. The Corporation has decided to use this exemption and therefore cumulative actuarial gains or losses will be recognized at the transition date. Cumulative actuarial losses included in the accrued benefit asset under Canadian GAAP and totalling $1.7 million as at February 27, 2010 will be reclassified to deficit in the opening consolidated balance sheet.

4. **Stock-based compensation** – An entity may apply IFRS 2, Share-based Payment, only to equity instruments unvested at its transition date. The Corporation elected 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 Corporation 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 Corporation has elected to reset to zero its nets foreign exchange gains totalling $80.1 million as at February 27, 2010, which will be reclassified to deficit at the transition date.

Although the analysis performed allowed the Corporation to establish a list of the major differences between Canadian GAAP and IFRS that are likely to impact the Corporation, the proposed projects of the International Accounting Standards Board ("IASB") and of the International Financial Reporting Interpretations Committee could significantly modify some of the actual IFRS requirements and could therefore ultimately impact the major differences identified. Consequently, the accounting policies selected by the Corporation could still be modified and other differences could arise. The Corporation keeps abreast of changes proposed by the IASB that could have an impact on the choices and the accounting policies adopted to date.

In addition to the impacts 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 Corporation 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 Corporation in an efficient and uniform manner. It also provides us with an integrated approach to risk management helping us achieve our strategic objectives. The Corporation identified many potential risks and uncertainties sources as listed below. However, other risks and uncertainties sources, unsuspected or unimportant at the moment, could surface in the future and have an impact on the Corporation.

Our framework has the following characteristics:

- It provides an understanding of risks on a Corporation scale;
- For each of the risks, we have evaluated the potential impacts on the following three elements: Corporation performance, network of franchised stores performance as well as customer service quality and the impact on our reputation and our corporate image;
- We evaluated our tolerance to risks and then established the controls necessary to achieve 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: pharmacy laws and regulations, 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 Corporation's activities could have a material adverse effect on its performance and on the sales growth of PJC franchisees. Processes are in place to insure our compliance as well as to monitor any and all changes to the laws and regulations in effect and any new laws and regulations.

Some of these laws and regulations, such as those governing the selling price of prescription drugs and the drugs wholesalers' profit margin are under provincial jurisdiction. However, changes made in one province could have an impact on the adoption or amendment of laws and regulations in other provinces. Readers are referred to the "Strategies and outlook" section of this MD&A for more information.

Readers are referred Note 19 of the Corporation's financial statements for fiscal year 2011 for further information on the Guarantees and contingencies.

Competition

The Canadian retail industry is constantly changing, and we operate in a highly competitive market. Customers 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 Corporation's inability to proactively fulfill these expectations could prove to have a negative effect on its competitive edge, therefore on its financial performance. The Corporation believes that its PJC network of franchised stores is well positioned to compete against other drugstore chains, mass merchants and large supermarket chains integrating pharmacies as well as independent drugstores as long as we continue concentrating our efforts on providing a high level of professional service and focus on patients health and wellness. Our customers are attracted by the Corporation's pharmacy service and other services offered through the PJC network of franchised stores, by the fact that its stores are situated in convenient locations, its 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 389 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 new marketing concepts meet customers' expectations. Pilot projects help us to evaluate the impact of the changes on profitability and customers' 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 program provides us with a competitive edge and has a positive impact on our customers' loyalty.

Development of franchised stores network

The successful implementation of the Corporation's strategic plan depends on its ability to grow and to improve its franchised stores network through new store openings, store relocations to better situated locations, as well as renovation and expansion projects. Therefore, the Corporation 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 Corporation'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, the Corporation risks that some franchisees may not follow purchasing policies, marketing plans or established operating standards. This could substantially impact our profitability 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 Corporation's marketing strategy and development standards are followed. Furthermore, efficient communication links are maintained between the Corporation and the franchisees, notably through a "liaison committee" and other consulting committees, to ensure franchisees satisfaction as well as compliance with the Corporation's 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 allow 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 the seasons, weather conditions and holidays such as Christmas, Valentine's Day and Mother's Day. The purchase of imported goods, exclusive and house brand products could result in overstocks and financial risk. Effective inventory management systems are 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 expose 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 have to assume said risks. By nature, our activities of manufacturing and distribution of certain products notably drugs and other pharmaceutical products expose us to risks. The risks associated with products, information or other security measures concerning the products that we manufacture or sell include those deficiencies or default to these measures as well as product defect 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 procedures in place allowing us to quickly remove potentially dangerous products from the market and to quickly communicate the situation to employees and customers. We use the best practices for the storage, physical safety and distribution of the products we sell. The Corporation carries an insurance covering product liability.

Logistics / distribution
In order to offer efficient and high quality service to our franchisees, the management of storage and of distribution are critical processes. Our warehouses are 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 our performance. Time and motion studies are also completed when necessary to evaluate and improve our performance.

Labor relations
Our distribution centres employees are unionized. Negotiations for the renewal of collective agreements may result in work stoppages or slowdowns that could have an adverse effect on distribution activities. All efforts are put forward to maintain good relations with trade unions and their representatives and also to ensure that the renewal of the collective agreements be made at conditions enabling us to remain competitive and effective.

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 continuous 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 Corporation has an obligation to comply with securities laws and regulations 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 Corporation 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 Corporation has had access to a high-availability disaster recovery site. In fact, the Corporation has the necessary infrastructure to replicate all transactions, databases and applications that are 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 would 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 Corporation 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.

The Corporation has the right to designate four directors on the Board of Directors of Rite Aid to look after its 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 Corporation'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 Corporation.

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 Corporation's disclosure controls and procedures was conducted as at February 26, 2011, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Corporation'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 Corporation.

The Corporation's management, including the CEO and CFO, has evaluated the effectiveness of the Corporation'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 26, 2011, 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 Corporation in accordance with Canadian GAAP. This evaluation takes into consideration the Corporation's financial disclosure policy.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Corporation's internal control over financial reporting that have materially affected, or are reasonably likely to have materially affected, the Corporation's internal control over financial reporting, for the fiscal year ended February 26, 2011.

STRATEGIES AND OUTLOOK

With its operations and financial flexibility, the Corporation is very well positioned to capitalize on the growth in the drugstore retail industry. Demographic trends are expected to contribute to growth in the prescription drugs' consumption and to the increased use of pharmaceuticals as the primary intervention in individual healthcare. Management believes that these trends will continue and that the Corporation 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 growth in the number of generic drugs' prescriptions will however have a deflationary impact on retail sales in the pharmacy section but the contribution of Pro Doc will have a positive impact on the consolidated margins.

On November 5, 2010, the Conseil du Médicament du Québec published a notice to generic drug manufacturers regarding transition measures to respecting Canada's best price established in the context of the recent price reduction of generic drugs in Ontario. This notice sets outs transition measures to help manufacturers adapt to this new regulatory environment, which are summarized as follows:

- Until the date of the publication of the List of Drugs of April 2011, if Canada's best price for a generic product is equal to or less than 37.5% of the price of the brand name drug in Québec, the price of the generic product can be 37.5% of the price of the brand name drug.

- As of the date of publication of the April 2011 list and until the date of publication of the April 2012 list, if Canada's best price for a generic product is equal to or less than 30% of the price of the brand name drug in Québec, the price of the generic product can be 30% of the price of the brand name drug.

- As of the date of publication of the April 2012 list, generic product prices cannot be higher than any selling price granted to other provincial drug insurance programs.

On December 1, 2010, the "Conseil du Médicament du Québec" published a new notice to generic drug manufacturers announcing that the date of application of the price reductions for transition measures to respecting Canada's best price was Friday, December 17, 2010.

On December 22, 2010, the Minister of Health and Social Services published a draft Regulation amending the Regulation respecting benefits authorized for pharmacists in the *"Gazette Officielle du Québec"* to modify the regulation governing professional allowances paid to pharmacists by generic drug manufacturers. The Regulation amending the Regulation respecting benefits authorized for pharmacists was then passed on March 23, 2011 by order 280-2011 of the Government of Québec, lowering the maximum rate of the authorized professional allowance, which was 20% of the total value of sales of generic drugs by the manufacturer, to 16.5% in April 2011, and 15% in April 2012.

On February 28, 2011, the "Institut National d'Excellence en Santé et en Services Sociaux" (INESSS), which succeeded the "Conseil du Médicament du Québec" and the "Agence d'Évaluation des Technologies et des Modes d'Intervention en Santé" (AETMIS) on January 19, 2011, published a notice for drug wholesalers regarding the Minister of Health and Social Services' intention to change the regulatory provisions controlling wholesaler's margins. Pursuant to this notice, the Regulation amending the Regulation respecting the conditions on which manufacturers and wholesalers of medications shall be recognized was passed on March 7, 2011 by order 2011-006 of the Minister of Health and Social Services increasing the maximum rate of the drug wholesalers' margin, which was 6% of the manufacturer's guaranteed selling price in relation to the package size purchased, to 6.25% in April 2011 and to 6.5% in April 2012.

Forward-looking statements

This Corporation profile and MD&A contains forward-looking statements that involve risks and uncertainties, and which are based on the Corporation's current expectations, estimates, projections and assumptions made by the Corporation 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 Corporation'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 Corporation's industry and the Corporation'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 Corporation 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 Corporation'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 Corporation's actual results to differ from current expectations, please also refer to the Corporation'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 Corporation'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, 2011

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 independent auditors, internal auditor and management to review their respective activities and the discharge by each of their responsibilities. Both the independent 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 independent 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

President and Chief Executive Officer

/s/ André Belzile

Senior Vice-President, Finances and Corporate Affairs

April 27, 2011

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Jean Coutu Group (PJC) Inc., which comprise the consolidated balance sheets as at February 26, 2011 and February 27, 2010, and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Jean Coutu Group (PJC) Inc. as at February 26, 2011 and February 27, 2010, 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[1]

April 27, 2011
Montréal, Québec

[1] Chartered accountant auditor permit No. 19705

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of earnings

For the fiscal years ended February 26, 2011 and February 27, 2010	2011	2010
(in millions of Canadian dollars, unless otherwise noted)	$	$
Sales	**2,348.7**	2,298.4
Other revenues (Note 3)	**249.1**	244.7
	2,597.8	2,543.1
Operating expenses		
Cost of goods sold	**2,091.6**	2,068.9
General and operating expenses	**230.1**	218.1
Amortization of property and equipment	**17.6**	17.6
	2,339.3	2,304.6
Operating income	**258.5**	238.5
Financing expenses (revenues) (Note 4)	**0.7**	(4.2)
Earnings before the following items	**257.8**	242.7
Share of loss in Rite Aid, a company subject to significant influence (Note 9)	**-**	55.2
Income taxes (Note 5)	**77.6**	74.9
Net earnings	**180.2**	112.6
Basic and diluted earnings per share, in dollars (Note 6)	**0.77**	0.48

Consolidated statements of comprehensive income

For the fiscal years ended February 26, 2011 and February 27, 2010	2011	2010
(in millions of Canadian dollars)	$	$
Net earnings	**180.2**	112.6
Other comprehensive income		
Foreign currency translation adjustments	**-**	(6.7)
Income taxes related to the above item	**-**	(16.4)
	-	(23.1)
Comprehensive income	**180.2**	89.5

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 26, 2011 and February 27, 2010	**2011**	2010
(in millions of Canadian dollars)	**$**	$
Capital stock, beginning of year	**650.8**	648.1
Redemption of stock	**(36.6)**	-
Options exercised	**0.2**	2.7
Capital stock, end of year	**614.4**	650.8
Contributed surplus, beginning of year	**32.7**	28.4
Stock-based compensation cost	**0.8**	0.8
Stock-based compensation in Rite Aid, a company subject to significant influence	**-**	3.5
Contributed surplus, ending of year	**33.5**	32.7
Deficit, beginning of year	**(254.0)**	(324.1)
Net earnings	**180.2**	112.6
Dividends	**(51.4)**	(42.5)
Excess of purchase price over carrying value of Class A subordinate voting shares acquired (Note 15)	**(26.4)**	-
Deficit, end of year	**(151.6)**	(254.0)
Accumulated other comprehensive income, beginning of year	**80.1**	103.2
Foreign currency translation adjustments, including income taxes effect	**-**	(23.1)
Accumulated other comprehensive income, end of year	**80.1**	80.1
Total shareholders' equity	**576.4**	509.6

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

THE JEAN COUTU GROUP (PJC) INC.

Consolidated balance sheets

	As at February 26, 2011	As at February 27, 2010
(in millions of Canadian dollars)	**$**	$
Assets		
Current assets		
Accounts receivable	**197.0**	194.1
Inventories	**173.2**	163.8
Prepaid expenses	**6.9**	5.0
Future income taxes (Note 5)	**3.6**	3.8
	380.7	366.7
Long-term receivables from franchisees (Note 7)	**34.7**	33.3
Other financial assets (Note 8)	**23.0**	22.7
Investments in companies subject to significant influence (Note 9)	**7.6**	7.9
Property and equipment (Note 10)	**414.4**	394.6
Goodwill (Note 11)	**36.0**	36.0
Future income taxes (Note 5)	**10.7**	15.8
Other long-term assets (Note 12)	**138.3**	107.9
	1,045.4	984.9
Liabilities		
Current liabilities		
Bank overdraft	**16.5**	13.3
Accounts payable and accrued liabilities	**210.1**	195.2
Income taxes payable	**28.7**	36.1
	255.3	244.6
Long-term debt (Note 13)	**184.8**	199.9
Future income taxes (Note 5)	**1.5**	1.3
Other long-term liabilities (Note 14)	**27.4**	29.5
	469.0	475.3
Guarantees, contingencies and commitments (Notes 19 and 20)		
Shareholders' equity		
Capital stock (Note 15)	**614.4**	650.8
Contributed surplus	**33.5**	32.7
Deficit	**(151.6)**	(254.0)
Accumulated other comprehensive income (Note 16)	**80.1**	80.1
	576.4	509.6
	1,045.4	984.9

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

Approved by the Board

/s/ François J. Coutu *——* */s/ L. Denis Desautels*

François J. Coutu
Director
President and Chief Executive Officer

L. Denis Desautels
Director

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of cash flows

For the fiscal years ended February 26, 2011 and February 27, 2010	2011	2010
(in millions of Canadian dollars)	$	$
Operating activities		
Net earnings	**180.2**	112.6
Items not affecting cash		
Amortization	**32.6**	30.3
Change in fair value of third party asset-backed commercial paper and related options of repayment (Note 8)	**(1.0)**	(4.6)
Share of loss in Rite Aid, a company subject to significant influence	**-**	55.2
Future income taxes (Note 5)	**5.5**	24.7
Other	**3.8**	(2.9)
	221.1	215.3
Net changes in non-cash asset and liability items (Note 24)	**(7.6)**	(12.5)
Cash flow related to operating activities	**213.5**	202.8
Investing activities		
Net change in long-term receivables from franchisees	**(6.8)**	(10.5)
Receipts from third party asset-backed commercial paper (Note 8)	**0.6**	3.5
Purchase of property and equipment	**(43.9)**	(46.9)
Proceeds from disposal of property and equipment	**6.0**	1.2
Other long-term assets	**(45.5)**	(27.2)
Cash flow related to investing activities	**(89.6)**	(79.9)
Financing activities		
Net change in revolving credit facility	**(15.1)**	(69.8)
Repayment of long-term debt	**-**	(5.4)
Issuance of capital stock	**0.2**	2.7
Redemption of capital stock	**(60.8)**	-
Dividends	**(51.4)**	(42.5)
Cash flow related to financing activities	**(127.1)**	(115.0)
Net change in cash and cash equivalents	**(3.2)**	7.9
Bank overdraft, beginning of year	**(13.3)**	(21.2)
Bank overdraft, end of year	**(16.5)**	(13.3)

The accompanying notes are an integral part of these consolidated financial statements. See supplemental cash flow information in Note 24.

1. Description of business and significant accounting policies

a) Description of business

The Jean Coutu Group (PJC) Inc. (the "parent corporation") is governed by the Business Corporations Act (Québec). The parent corporation and its subsidiaries (the "Corporation") operates a franchisee network in Canada under the banners of PJC Jean Coutu, PJC Clinique, PJC Jean Coutu Santé et PJC Jean Coutu Santé Beauté. The Corporation also operates two distribution centres and providing various services to 389 franchised stores as at February 26, 2011 (February 27, 2010 - 370). In fiscal 2011 there were 21 new store openings (2010 - 17) and 2 closures of franchised stores (2010 - none). The franchised store network retails pharmaceutical, parapharmaceutical and other products. The Corporation also manages all properties that house franchisee outlets.

The Corporation owns Pro Doc Ltd ("Pro Doc"), a Québec-based subsidiary and manufacturer of generic drugs. The Corporation also holds a interest of 28.3 % in Rite Aid Corporation ("Rite Aid"), a national chain of drugstores in the United States with more than 4,700 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 Corporation 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 26, 2011 and February 27, 2010 both included 52 weeks.

c) Basis of consolidation

The consolidated financial statements include the accounts of the parent corporation and all its subsidiaries. All intercorporation 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, fair value of financial instruments, incentives paid to franchisees and allowances, specifically those related to long-term receivables from franchisees, income taxes as well as guarantees and contingencies.

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

e) Revenue recognition

Sales are only comprised of sales of goods. Sales are recognized at the fair value of the consideration received or receivable, net of returns, trade discounts, professional allowance and volume rebates. Revenue is recognized when persuasive evidence exists that the significant risks and rewards of ownership have been transferred to the buyer, usually when the merchandise is shipped, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Volume rebates, professional allowance and cash discounts granted to customers are accrued at the time of sale and recorded as a reduction of sales.

The Corporation 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 in other revenues as they are earned. The percentage is established in the franchisees' agreements.

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

Revenues are recognized when reasonable assurance exists regarding collectability.

f) Rate-regulated activities

The fees of certain activities exercised by the Corporation as distributor are regulated. Indeed, in Quebec (province where almost the totality of the sales of the Corporation is generated), pursuant to the Public 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 Corporation 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.

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

g) Vendor allowance

Cash considerations received from vendors represent a reduction of the price of the vendors' products or services and are accounted for as a reduction of cost of goods sold and related inventory when recognized in the Corporation'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 Corporation to sell the vendors' products or a payment for assets or services delivered to the vendors.

h) Foreign currency translation

The non-consolidated financial statements of the parent corporation, 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.

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

j) 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 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 Corporation 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 Corporation'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	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)*

j) 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 Corporation does not use derivative financial instruments for speculative purpose. The Corporation 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 Corporation did not use financial instruments to manage interest rate and foreign exchange rate risks during the fiscal years ended February 26, 2011 and February 27, 2010.

iii) Transaction costs

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

iv) Fair value hierarchy

The Corporation 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.

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

k) Inventories

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

l) 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.

m) 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 Corporation'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 Corporation's former US operations, certain adjustments are made to share of loss. The Corporation's share of Rite Aid's loss is adjusted to reflect the amortization of the fair value adjustments related to the Corporation'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 Corporation's retained interest in its former US Operations.

When the Corporation’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 Corporation 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.

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

n) 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

o) Goodwill

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired and is not amortized. Goodwill is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. As at February 26, 2011 and February 27, 2010, the Corporation 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.

p) Other long-term assets

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 Corporation has leases and subleases with predetermined fixed escalation of the minimum rent. The Corporation 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)*

q) Impairment of long-lived assets

The Corporation 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.

r) Future income taxes

The Corporation 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.

s) Other long-term liabilities

i) Deferred revenues

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

t) Stock-based compensation plan

The Corporation has a fixed stock option plan, which is described in Note 18. 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)*

u) Defined benefit pension plans

The Corporation maintains defined benefit pension plans for some of its senior officers, which include registered pension plans in Canada 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 Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets and unamortized balances. 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 26, 2011 (February 27, 2010 - 6 years).

v) Defined contribution pension plans

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

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 Corporation's consolidated balance sheet. Accordingly, figures have been presented 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 Corporation has adopted this Section as of March 1, 2009. The adoption of this new Section had no material impact on the Corporation'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 are effective for annual financial statements of the fiscal year ending after September 30, 2009. Accordingly, the Corporation has adopted the additional disclosures in its annual financial statements for the fiscal year ending February 27, 2010. Additional information have been presented in Note 23, "Financial instruments disclosure".

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

2. Changes in accounting policies *(continued)*

Recent pronouncements

d) 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 Corporation'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 Corporation will prepare both the current and comparative financial information using IFRS. Accordingly, the February 26, 2011 financial statements are the last financial statements prepared in accordance with Canadian GAAP.

3. Other revenues

	2011	2010
	$	$
Royalties:		
Gross royalties	**121.0**	122.2
Amortization of incentives paid to franchisees	**(15.0)**	(12.7)
Change in discount on loans and receivables recorded under the effective interest rate method	**0.2**	0.5
Net royalties	**106.2**	110.0
Rent	**80.9**	76.2
Sundry	**62.0**	58.5
	249.1	244.7

4. Financing expenses (revenues)

	2011	2010
	$	$
Interest on long-term debt	**2.6**	2.7
Unrealized foreign exchange gains on monetary items	**(0.1)**	(0.5)
Realized foreign exchange gains on monetary items	**(0.1)**	(0.1)
Interest revenues on loans and receivable accounted for under the effective interest rate method	**(0.6)**	(0.9)
Change in fair value of third party asset-backed commercial paper and related options of repayment (Note 8)	**(1.0)**	(4.6)
Other financing income, net	**(0.1)**	(0.8)
	0.7	(4.2)

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

5. Income taxes

The income taxes are as follows:

	2011	2010
	$	$
Current income taxes	**72.1**	50.2
Future income taxes	**5.5**	24.7
	77.6	74.9

The Corporation'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:

	2011	2010
	$	$
Income taxes at statutory tax rates	**76.4**	57.6
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
Valuation allowance on future income tax assets	**-**	7.1
Other	**1.2**	0.7
	77.6	74.9

(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 26, 2011	As at February 27, 2010
	$	$
Future income tax assets:		
Investment in Rite Aid, a company subject to significant influence	**163.0**	163.1
Long-term receivables from franchisees	**0.7**	1.0
Property and equipment	**0.5**	0.5
Goodwill and incentives paid to franchisees	**6.0**	5.4
Other long-term liabilities	**4.5**	4.9
Penalty on senior notes reimbursements	**9.5**	13.3
Total future income tax assets	**184.2**	188.2
Less valuation allowance	**(163.0)**	(163.1)
	21.2	25.1
Future income tax liabilities:		
Property and equipment	**6.9**	5.6
Other	**1.5**	1.2
	8.4	6.8
Future income tax assets, net	**12.8**	18.3
Allocated as follows:		
Short-term future income tax asset	**3.6**	3.8
Long-term future income tax asset	**10.7**	15.8
Long-term future income tax liability	**(1.5)**	(1.3)
	12.8	18.3

6. Earnings per share

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

	2011	2010
Net earnings	**$ 180.2**	$ 112.6
Weighted average number of shares (in millions) used to compute basic and diluted earnings per share	**233.6**	236.2
Basic and diluted net earnings per share, in dollars	**$ 0.77**	$ 0.48

For the fiscal year ended February 26, 2011, 1,678,000 antidilutive stock options have been excluded from the computation of diluted earnings per share (1,717,000 in 2010). The other outstanding stock options have an immaterial effect on the calculation of the diluted profit per share.

7. Long-term receivables from franchisees

	As at February 26, 2011	As at February 27, 2010
	$	$
Long-term receivables from franchisees	**40.1**	40.1
Less: current portion (included in accounts receivable)	**(5.4)**	(6.8)
	34.7	33.3

Long-term receivables from franchisees are accounted for using the effective interest rate method. As at February 26, 2011, the principal amount of these investments was $49.8 million (February 27, 2010 - $47.9 million) before the discount effect of $2.1 million (February 27, 2010 - $3.3 million) and before deduction of a provision for undiscounted losses of $7.6 million (February 27, 2010 - $4.5 million). These investments bear interest at rates up to 8.0% (February 27, 2010 - 8.5%), carry repayment terms up to 2025 and certain of these receivables are renewable.

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

8. Other financial assets

Other financial assets are third party asset-backed commercial paper ("ABCP") and options to repay drawdowns of credit facilities with restructured notes. The details in the changes in fair value 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 the consolidated statements of earnings (Note 4) are presented as follows:

	2011	2010
	$	$
Fair value of ABCP, beginning of year	**19.8**	21.8
Change in fair value	**1.1**	1.7
Receipts	**(0.6)**	(3.5)
Effect of change in exchange rates	**(0.1)**	(0.2)
Fair value of ABCP, end of year	**20.2**	19.8
Options of repayment, beginning of year	**2.9**	-
Initial gain on options of repayment	**-**	3.4
Change in fair value	**(0.1)**	(0.5)
Options of repayment, end of year	**2.8**	2.9
	23.0	22.7

For the fiscal year ended February 26, 2011, the change in fair value of ABCP and related options of repayment was a gain of $1.0 million (the fiscal year ended February 27, 2010 - gain of $4.6 million, including initial gains of $3.4 million).

a) ABCP

On February 26, 2011, the Corporation held ABCP of a nominal amount of $30.5 million (of which $0.4 million is denominated in US dollars). As at February 26, 2011, notional values of Master Asset Vehicles (“MAV”) II and MAV III notes are $24.2 million (A1 - $10.4 million, A2 - $10.3 million, B - $1.9 million, C - $0.7 million and $0.9 million of ineligible assets tracking notes) and $6.3 million ($0.4 million of traditional assets tracking notes and $5.9 million of ineligible assets tracking notes), respectively.

As at February 26, 2011, the total loss in value recorded was $10.3 million representing 34% of the ABCP's nominal amount at that date. For the fiscal year ended February 26, 2011, the Corporation wrote off an amount of $0.6 million ($0.5 million in 2010) related to capital losses on ABCP.

8. Other financial assets *(continued)*

a) ABCP (continued)

The Corporation assessed its ABCP as at February 26, 2011. Since there is no active market for ABCP, the Corporation 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 Corporation'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 Corporation tested the sensitivity of its ABCP valuation model, and a 100 basis point increase in the discount rate would result in a 4.2% or $0.8 million pre-tax decrease in the fair value of these investments.

The Corporation 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 the Corporation's financial condition as a result of the ABCP liquidity issue.

b) Options to repay drawdowns of credit facilities with restructured notes

The Corporation has credit facilities that include options allowing the use of the restructured notes to repay the drawdowns as they become due, under certain conditions. The Corporation assessed and accounted these options to repay drawdowns of credit facilities with restructured notes at fair value.

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

9. Investments in companies subject to significant influence

	As at February 26, 2011	As at February 27, 2010
	$	$
Investment in Rite Aid, a company subject to significant influence	**-**	-
Investments in companies subject to significant influence - Others	**7.6**	7.9
	7.6	7.9

Investment in Rite Aid, a company subject to significant influence

The Corporation holds an equity interest of 28.3% (February 27, 2010 - 28.4%) in Rite Aid. Rite Aid is one of the United States' leading drugstore chain, operating more than 4,700 drugstores. The equity interest in Rite Aid represents an investment subject to significant influence, which is accounted for using the equity method. On February 26, 2011, the quoted market value of equity interest in Rite Aid was US$322.5 million (February 27, 2010 - US$383.0 million).

During the fiscal year ended February 27, 2010, the Corporation's share of loss in Rite Aid exceeded the carrying value of its investment. As required by Canadian GAAP, the Corporation 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 Corporation has not guaranteed obligations of Rite Aid and is not committed to provide it with further financial support. For the fiscal year ended February, 2011, the Corporation's unrecognized share of loss in Rite Aid amounted to $160.6 million ($89.4 million in 2010). As at February 26, 2011, the Corporation's total unrecognized share of loss in Rite Aid amounted to $250.0 million (February 27, 2010 - $89.4 million).

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

9. Investments in companies subject to significant influence *(continued)*

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

The following table presents Rite Aid's selected financial information derived from their consolidated and audited financial statements as at February 26, 2011, and February 27, 2010, and for the 52-week periods then ended, in accordance with US GAAP, in US dollars. The Corporation has also presented this information using Canadian GAAP for information purposes.

	US GAAP	**CDN GAAP**	US GAAP	CDN GAAP
	2011	**2011**	2010	2010
	US$	**US$**	US$	US$
Rite Aid's consolidated statement of operations data:				
Revenues	**25,214.9**	**25,214.9**	25,669.2	25,669.2
Net loss	**(555.4)**	**(512.7)**	(506.7)	(424.0)

	US GAAP	**CDN GAAP**	US GAAP	CDN GAAP
	As at February 26, 2011	**As at February 26, 2011**	As at February 27, 2010	As at February 27, 2010
	US$	**US$**	US$	US$
Rite Aid's consolidated balance sheet data:				
Total assets	**7,555.9**	**8,299.5**	8,049.9	8,735.0
Total liabilities	**9,767.2**	**9,591.8**	9,723.5	9,525.9
Stockholders' deficit	**(2,211.3)**	**(1,292.3)**	(1,673.6)	(790.9)

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

10. Property and equipment

	As at February 26, 2011		
	Cost	**Accumulated amortization**	**Net book value**
	$	**$**	**$**
Land	**3.7**	**-**	**3.7**
Land held for leasing	**101.9**	**-**	**101.9**
Buildings	**54.3**	**23.1**	**31.2**
Buildings held for leasing	**302.0**	**56.8**	**245.2**
Leasehold improvements	**18.2**	**8.5**	**9.7**
Equipment	**73.9**	**61.6**	**12.3**
Construction in progress	**10.4**	**-**	**10.4**
	564.4	**150.0**	**414.4**

	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

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

11. Goodwill

The carrying amount of goodwill is $36.0 million as at February 26, 2011 and February 27, 2010, of which $20.0 million was allocated to the franchising segment and $16.0 million was allocated to the generic drugs segment.

12. Other long-term assets

	As at February 26, 2011	As at February 27, 2010
	$	$
Incentives paid to franchisees, net	**128.2**	97.7
Rent escalation assets	**8.4**	8.7
Other	**1.7**	1.5
	138.3	107.9

13. Long-term debt

	As at February 26, 2011	As at February 27, 2010
	$	$
Unsecured revolving credit facility, maturing on May 8, 2012, bearing interest at a weighted average rate of 1.65% (February 27, 2010 - 0.85%). Interest rate is repriced periodically for terms generally not exceeding one month.	**184.8**	199.9

a) Credit agreement

The Corporation is bound by an unsecured revolving credit facility in the amount of $500 million maturing on May 8, 2012. Borrowings under the credit facility bear interest at the Canadian prime rate plus a variable margin (totalling 3.00% as at February 26, 2011 and 2.25% as at February 27, 2010) or at banker acceptance rate plus a variable margin (totalling 1.65% as at February 26, 2011 and 0.85% as at February 27, 2010). Margins depend on the achievement of certain financial ratios. As at February 26, 2011, $185.3 million of the available credit facilities were used (February 27, 2010 - $200.3 million), including outstanding letters of credit of $0.3 million (February 27, 2010 - $0.3 million).

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

13. Long-term debt *(continued)*

a) Credit agreement *(continued)*

Under the terms and conditions of the credit agreement, the Corporation must satisfy certain covenants as, among others, the maintenance of financial ratios, which are described in Note 17, and the compliance with certain conditions regarding indebtedness, investments and business acquisitions. As at February 26, 2011 and February 27, 2010, the Corporation satisfied such covenants.

On May 28, 2009, the Corporation 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 prime rate plus a variable margin (totalling 2.00% as at February 26, 2011 and 1.25% as at February 27, 2010) or at banker acceptance rate plus a variable margin (totalling 1.85% as at February 26, 2011 and 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 16.1 million as at February 26, 2011. These revolving credit facilities are secured by a first ranking security interest on ABCP that are described in Note 8a). As at February 26, 2011 and as at February 27, 2010, none of these credit facilities were used.

b) Minimum repayments

The entire debt as at February 26, 2011 is repayable during the fiscal year ending March 2, 2013.

14. Other long-term liabilities

	As at February 26, 2011	As at February 27, 2010
	$	$
Deferred revenues	**15.0**	16.6
Deferred lease obligations	**12.4**	12.9
	27.4	29.5

15. 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:

	2011		2010	
	Shares		Shares	
	(in millions)	**$**	*(in millions)*	$
Class A subordinate voting shares				
Outstanding shares, beginning of year	**118.9**	**650.8**	118.6	648.1
Exercise of exchange privilege	**3.0**	**-**	-	-
Repurchased and cancelled	**(6.5)**	**(35.1)**	-	-
Repurchased and to cancel	**-**	**(1.5)**	-	-
Stock options exercised	**-**	**0.2**	0.3	2.7
Outstanding shares, end of year	**115.4**	**614.4**	118.9	650.8
Class B shares				
Outstanding shares, beginning of year	**117.4**	**-**	117.4	-
Exercise of exchange privilege	**(3.0)**	**-**	-	-
Outstanding shares, end of year	**114.4**	**-**	117.4	-

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

15. Capital stock *(continued)*

a) Normal course issuer bid

On April 29, 2010, the Corporation announced its intention to purchase for cancellation, if it is considered advisable, up to 11,110,000 of its outstanding Class A subordinate voting shares, representing approximately 10% of the current public float, over a 12-month period ending no later than May 3, 2011. The shares were or will be purchased through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

For the fiscal year ended February 26, 2011, the Corporation purchased 6,819,900 Class A subordinate voting shares at an average price of $9.23 per share for a total consideration of $63.0 million including related costs. An amount of $26.4 million representing the excess of the purchase price over the carrying value of the purchased shares was recorded in deficit. The shares purchased during the fiscal year ended February 26, 2011 were cancelled during that period, except for 287,200 shares that were cancelled after February 26, 2011.

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

b) Exercise of exchange privilege

On May 25, 2010, the Corporation issued 3,000,000 Class A subordinate voting shares, due to the exercise of exchange privilege of 3,000,000 Class B shares against Class A subordinate voting shares on the basis of one Class A subordinate voting share for each Class B share exchanged.

c) Stock options exercised

Following the stock options exercised, 23,616 Class A subordinate voting shares were issued for the fiscal year ended February 26, 2011 (308,676 in 2010).

16. Accumulated other comprehensive income

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

	As at February 26, 2011	As at February 27, 2010
	$	$
Balance, beginning of year	**80.1**	103.2
Effect of changes in exchange rates on the investment in Rite Aid, a company subject to significant influence, including income taxes effect	**-**	(23.1)
Balance, end of year	**80.1**	80.1

17. Capital disclosure

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

- to safeguard the Corporation'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 appropriate capital investments to ensure that its operations remain competitive and stable.

The Corporation 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 Corporation 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 Corporation's capital objectives, policies and procedures are unchanged since February 27, 2010.

The Corporation 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 corporations.

The Corporation monitors its capital using different financial ratios and non-financial performance indicators. The Corporation 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. OIBA results from the addition of net earnings, 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.

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

17. Capital disclosure *(continued)*

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

	As at February 26, 2011	As at February 27, 2010
	$	$
Bank overdraft	**16.5**	13.3
Long-term debt	**184.8**	199.9
Net debt	**201.3**	213.2
Shareholders' equity	**576.4**	509.6
Total capitalization	**777.7**	722.8
Operating income	**258.5**	238.5
Plus: Amortization [1]	**32.6**	30.3
Operating income before amortization	**291.1**	268.8
Net debt to shareholder's equity	**25.9%**	29.5%
Net debt to operating income before amortization	**0.7**	0.8

[1] Including amortization of incentives paid to franchisees.

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

The Corporation must also comply quarterly to certain financial covenants under its $500 million revolving credit facility described in Note 13. 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 Corporation is in compliance with the requirements stipulated in its credit facility agreement with regards to the maintenance of those ratios.

18. Stock-based compensation plan

The Corporation has a fixed stock option plan. Under the stock option plan established in 1995 for its officers, the Corporation 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 Corporation'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:

	2011		2010	
	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	**1.9**	**12.56**	2.6	13.20
Options granted	**0.4**	**9.27**	0.4	9.95
Options exercised	**-**	**7.88**	(0.3)	8.70
Options forfeited	**(0.3)**	**13.22**	(0.8)	15.05
Options outstanding, end of year	**2.0**	**11.90**	1.9	12.56
Options exercisable, end of year	**1.4**	**13.15**	1.3	13.70

The following table summarizes information about the stock options as at February 26, 2011:

	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	**0.6**	**8.8**	**8.64**	**0.2**	**8.21**
$10 - $15	**1.0**	**6.3**	**12.28**	**0.8**	**12.89**
$15 - $20	**0.4**	**3.0**	**16.75**	**0.4**	**16.75**
	2.0	**6.5**	**11.90**	**1.4**	**13.15**

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

18. 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:

	2011	2010
Dividend yield	**2.39%**	1.97%
Expected volatility	**33,06%**	34.08%
Risk-free interest rate	**2.70%**	2.69%
Expected life (years)	**6**	6

During the fiscal year ended February 26, 2011, the Corporation granted 394,490 stock options (362,330 in 2010). The fair value of those options is $2.61 for the fiscal year ended February 26, 2011 ($2.86 in 2010). An amount of $0.8 million for the fiscal year ended February 26, 2011 was expensed for the stock option plan ($0.8 million in 2010).

The Corporation also has a stock appreciation right and a stock unit plan. During the fiscal year ended February 26, 2011, the Corporation granted 20,088 stock units (18,715 in 2010) and 170,008 stock appreciation right (none in 2010). As at February 26, 2011, 124,255 stock units (104,167 as at February 27, 2010) and 255,468 stock appreciation rights (85,460 as at February 27, 2010) was outstanding.

19. Guarantees and contingencies

a) Guarantees

On June 4, 2007, the Corporation sold its US Operations to Rite Aid. As part of this transaction, the Corporation 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 Corporation'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 tax audit reports of fiscal years 2004 to 2007 for the US Operations sold to Rite Aid. The Corporation initiated the appeal process concerning these audits' results. Although these audits final outcome cannot be determined with certainty, the Corporation believes its provision for potential tax indemnification resulting from these audits is sufficient. The Corporation is unable to estimate potential liability for other types of indemnification guarantees as these amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

19. Guarantees and contingencies *(continued)*

a) Guarantees *(continued)*

The Corporation has guaranteed the reimbursement of certain bank loans contracted by franchisees for a maximum amount of $3.4 million as at February 26, 2011 (February 27, 2010 - $2.4 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 Corporation 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 26, 2011, financing related to these inventories amounted to $116.6 million (February 27, 2010 - $116.3 million). However, under these agreements, the Corporation 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 Corporation 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 26, 2011, financing related to the equipment amounted to $69.0 million (February 27, 2010 - $61.1 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 Corporation 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 26, 2011 and February 27, 2010.

c) Contingencies

Various claims and legal proceedings have been initiated against the Corporation 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 Corporation’s consolidated financial statements. The Corporation limits its exposure to some risk of claims related to its activities by subscribing to insurance policies.

Also, during the fiscal years 2009 and 2011, the Corporation was named as a defendant in two actions instituted against it by the same franchisee. 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 and claims the reimbursement of royalties paid on the sale of medications and damages. The Corporation contests the grounds upon which these actions are 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 these lawsuits or to determine the amount of any potential losses, if any. No provision for contingent loss has been recorded in the Corporation's consolidated financial statements.

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

20. Commitments

The Corporation has commitments under the operating leases as lessee or lessor and under other commercial commitments.

a) The Corporation as lessee

Leases generally have terms between 5 to 20 years with options to renew. The Corporation does not have an option to purchase the leased lands or buildings at the expiry of the lease periods. Some leases have escalation clauses. No contingent rents are paid. The rental payments for the fiscal year ended February 26, 2011 is $50.2 million (2010 - $47.9 million).

The future minimum payments under the non-cancellable operating lease rentals of lands and building are as follows:

	Minimum payments under operating leases
	$
2012	**40.5**
2013	**38.4**
2014	**36.9**
2015	**35.9**
2016	**34.4**
And thereafter	**238.2**
	424.3

The Corporation subleases most of its leased premises. Income from sublease are described in the next section.

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

20. Commitments *(continued)*

b) The Corporation as lessor

The Corporation leases a substantial portion of its lands and buildings classified under property and equipment (Note 10), mainly to franchisees, using conventional operating leases. The Corporation also subleases most of the premises it leases to franchisees and other tenants. Generally, the Corporation's real estate leases are for primary terms of 10 to 20 years with options to renew. Some leases have escalation clauses. No contingent rents are charged. As of February 26, 2011, the Corporation has current receivables (included in accounts receivable) of $5.8 million ($8.3 million as of February 27, 2010) related to its operating leases. Rental income (included in other revenues (Note 3)) is as follows:

	2011	2010
	$	$
Rental income from lands and buildings classified under property and equipment	**31.2**	29.0
Rental income from subleases	**49.7**	47.2
	80.9	76.2

The future minimum payments under non-cancellable operating leases for lands and buildings leased or subleased that the Corporation will receive, are as follows:

	Operating leases income	**Operating subleases income**
	$	**$**
2012	**30.7**	**39.3**
2013	**26.6**	**35.8**
2014	**21.7**	**32.9**
2015	**17.2**	**31.3**
2016	**13.8**	**28.7**
And thereafter	**44.4**	**164.1**
	154.4	**332.1**

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

20. Commitments *(continued)*

c) Other commercial commitments

The Corporation also has other commitments including commitments for the acquisition and construction of buildings with contractors totalling $12.0 million and agreements with suppliers to purchase inventory and services totalling $16.9 million. Minimum payments payable over the next five years are as follows:

	Other commercial commitments
	$
2012	**20.5**
2013	**3.0**
2014	**2.4**
2015	**2.0**
2016	**0.6**

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

21. Pension plans

The Corporation 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 26, 2011 (February 27, in 2010).

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

	2011	2010
	$	$
Defined contribution pension plans' expense	**1.8**	1.8
Defined benefit pension plans		
Current service cost	**1.0**	0.8
Interest expense	**1.1**	1.0
Actual return on plan assets	**(1.2)**	(1.5)
Amendments to pension plans	**0.9**	(0.3)
Actuarial loss	**0.6**	3.1
Elements of the defined benefit pension plans' expense before adjustments to recognize the long-term nature of employee future benefit costs	**2.4**	3.1
Difference between amortization of past service costs for the year and actual plan amendments for the year	**(0.1)**	1.0
Difference between actual return and expected return on plan assets	**0.5**	1.1
Difference between actuarial gain (loss) recognized for the year and actual actuarial gain (loss) on accrued benefit obligation	**(0.5)**	(3.1)
Defined benefit pension plans' expense	**2.3**	2.1

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

21. Pension plans *(continued)*

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

	As at February 26, 2011	As at February 27, 2010
	$	$
Accrued benefit obligations		
Balance, beginning of year	**17.1**	12.4
Current service cost	**1.0**	0.8
Interest expense	**1.1**	1.0
Benefits paid	**(0.2)**	(0.2)
Amendments to pension plans	**1.3**	-
Actuarial loss	**0.6**	3.1
Balance, end of year	**20.9**	17.1
Plan assets		
Fair value, beginning of year	**13.5**	7.2
Actual return on plan assets	**1.2**	1.5
Contributions	**4.4**	5.6
Amendments to pension plans	**0.4**	-
Benefits paid	**(0.2)**	(0.2)
Settlement	**-**	(0.6)
Fair value, end of year	**19.3**	13.5
Accrued benefit obligations	**20.9**	17.1
Plan assets	**(19.3)**	(13.5)
	1.6	3.6
Unamortized net actuarial loss	**(1.7)**	(1.7)
Unamortized past service cost	**(3.4)**	(3.3)
Accrued benefit asset (included in accounts receivable)	**(3.5)**	(1.4)

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

21. Pension plans *(continued)*

As at February 26, 2011 and as at February 27, 2010, some of the pension plans of the Corporation had accrued benefit obligation exceeding the plan assets value. For those plans, the accrued benefit obligation was of $15.3 million ($12.4 million as at February 27, 2010) and the fair value of plan assets was of $12.9 million ($8.5 million as at February 27, 2010) at that date.

As at February 26, 2011 and as at February 27, 2010, 28% of the plan assets at fair value was deposited as Canadian refundable tax and 72% was invested. The balance invested consists of the following allocations:

	2011	2010
	%	%
Balanced funds	**51**	58
Equity funds	**44**	42
Other	**5**	-

No plan assets are directly invested in the parent corporation or its subsidiaries' securities.

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

	2011	2010
	%	%
Accrued benefit obligations		
Discount rate	**5.50**	6.00
Expected long-term rate of return on plan assets	**6.25**	6.25
Rate of compensation increase	**3.50**	4.00
Defined benefit expense		
Discount rate	**6.00**	8.00
Rate of compensation increase	**4.00**	4.00

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

22. Related party transactions

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

	2011	2010
	$	$
Revenues		
Sales	**22.9**	26.3
Royalties	**1.4**	1.3
Rent	**0.9**	1.1
	25.2	28.7

As at February 26, 2011, accounts receivable include an amount of $2.3 million (February 27, 2010 - $1.6 million) resulting from these transactions and receivables do not include significant long-term receivable (same as of February 27, 2010) to an executive. During the fiscal year ended February 26, 2011, an amount of $6.6 million (2010 - none) for a incentives paid to franchisees was granted to an executive to acquire a franchised store. These transactions are carried out in the normal course of business and are measured at the exchange amount.

23. Financial instruments disclosure

a) Carrying amounts by financial asset and liability category :

	As at February 26, 2011	As at February 27, 2010
	$	$
Financial assets held for trading		
ABCP	**20.2**	19.8
Options to repay drawdowns of credit facilities with restructured notes	**2.8**	2.9
Loans and receivables		
Accounts receivable	**197.0**	194.1
Long-term receivables from franchisees	**34.7**	33.3
Financial liabilities		
Bank overdraft	**16.5**	13.3
Accounts payable and accrued liabilities	**210.1**	195.2
Long-term debt	**184.8**	199.9

23. Financial instruments disclosure *(continued)*

b) Fair value

As at February 26, 2011 and February 27, 2010, 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 26, 2011 and February 27, 2010 as their effective interest rates are similar to the rates that the Corporation 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 8a).

The fair value of options to repay drawdowns of credit facilities with restructured notes described in Note 8b) was determined using the Black & Scholes option pricing model and also takes into account the fair value of the underlying ABCP as at February 26, 2011.

The fair value of long-term debt was not significantly different from its carrying amount as at February 26, 2011 and February 27, 2010 given it mainly bears interest at rates based on market rates for terms generally not exceeding one month. At each balance sheet date, the Corporation 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 Corporation 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 26, 2011 and as at February 27, 2010, because significant unobservable market inputs are used in assessments. The details in the changes in fair value of ABCP and options to repay drawdowns of credit facilities with restructured notes are presented in note 8.

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 Corporation to sustain a financial loss. The principal credit risks for the Corporation relate to ABCP, accounts receivable and long-term receivables from franchisees. Credit risk is reduced by the options to repay drawdowns of credit facilities with restructured notes regarding ABCP and by the active monitoring of the accounts receivable and long-term receivables from franchisees by the Corporation's management.

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

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

23. Financial instruments disclosure *(continued)*

d) Credit risk *(continued)*

Allowance for credit losses is reviewed at each balance sheet date. The Corporation 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:

	2011	2010
	$	$
Balance, beginning of year	**3.0**	2.0
Allowance for credit losses	**6.5**	1.4
Write-off	**(3.0)**	(0.4)
Balance, end of year	**6.5**	3.0

e) Liquidity risk

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

As at February 26, 2011, the Corporation had accounts payable and accrued liabilities of $210.1 million (February 27, 2010, $195.2 million) due over the next 12 months. Due dates for long-term debt and commitments are presented in Notes 13 and 20, respectively.

The Corporation 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 Corporation is exposed to interest rate fluctuation risk as a result of its financial obligations at variable interest rate. As at February 26, 2011, $184.8 million (February 27, 2010 - $199.9 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 Corporation is also exposed to interest rate fluctuation risk on the ABCP it holds (Note 8a).

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

23. Financial instruments disclosure *(continued)*

f) Interest rate risk (continued)

The Corporation manages its interest rate exposure on long term debt and could, amongst others, enter into swap agreements consisting in exchanging variable rates for fixed rates. For the fiscal year ended February 26, 2011, a 100 basis points increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a $1.3 million decrease or increase in the Corporation's net earnings, respectively.

g) Foreign exchange risk

As at February 26, 2011 and February 27, 2010, the Corporation'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.

24. Supplemental cash flow information

	2011	2010
	$	$
Net changes in non-cash asset and liability items		
Accounts receivable and prepaid expenses	**(4.8)**	(9.3)
Inventories	**(9.4)**	(4.4)
Accounts payable and accrued liabilities and income taxes payable	**6.5**	2.0
Other long-term assets	**0.1**	(0.3)
Other long-term liabilities	**-**	(0.5)
Net changes in non-cash asset and liability items	**(7.6)**	(12.5)
Other information		
Interest paid	**2.5**	2.9
Income taxes paid	**79.5**	50.5

	As at February 26, 2011	As at February 27, 2010
	$	$
Property and equipment acquired included in accounts payable and accrued liabilities	**3.9**	5.1
Redemption of capital stock included in accounts payable and accrued liabilities	**2.2**	-

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

25. Segmented information

The Corporation has three reportable operating segments: franchising, generic drugs and an investment in Rite Aid, an entity subject to significant influence, which operates in the United States. Within the franchising segment, the Corporation carries on the franchising activity under the banners of PJC Jean Coutu, PJC Clinique, PJC Jean Coutu Santé and PJC Jean Coutu Santé Beauté, operates two distribution centres and coordinates several other services for the benefit of its franchisees. Within the generic drugs segment, the Corporation owns Pro Doc, a canadian manufacturer of generic drugs who receives its revenues from the sale of generic drugs to the wholesalers and to the pharmacists. The investment in Rite Aid is accounted for using the equity method as described in Note 9.

The accounting policies that are used for the reportable operating segment are the same as the one described in the significant accounting policies. The Corporation analyzes the performance of its franchising and generic drugs segments based on its operating income before amortization ("OIBA"), which is not a measure of performance under Canadian GAAP. The Corporation records the intersegment operations to the exchange value.

Segmented information is summarized as follows:

	2011	2010
	$	$
Revenues [1]		
Franchising	**2,591.0**	2,541.1
Generic drugs	**124.5**	79.4
Intersegment sales	**(117.7)**	(77.4)
	2,597.8	2,543.1
Operating income before amortization		
Franchising	**238.1**	239.1
Generic drugs	**60.1**	34.3
Intersegment eliminations	**(7.1)**	(4.6)
	291.1	268.8
Amortization		
Franchising [2]	**32.5**	30.2
Generic drugs	**0.1**	0.1
	32.6	30.3

[1] Revenues include sales and other revenues.

[2] Including amortization of incentives paid to franchisees.

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

25. Segmented information *(continued)*

	2011	2010
	$	$
Operating income		
Franchising	**205.6**	208.9
Generic drugs	**60.0**	34.2
Intersegment eliminations	**(7.1)**	(4.6)
	258.5	238.5
Acquisition of capital assets		
Franchising	**42.6**	44.0
Generic drugs	**0.1**	0.4
	42.7	44.4

	As at February 26, 2011	As at February 27, 2010
	$	$
Capital assets and goodwill		
Franchising	**433.9**	414.1
Generic drugs	**16.5**	16.5
	450.4	430.6
Total assets		
Franchising	**1,059.0**	990.7
Generic drugs	**31.7**	33.9
Investment in Rite Aid	**-**	-
Intersegment eliminations	**(45.3)**	(39.7)
	1,045.4	984.9

The Corporation's revenues, capital assets and goodwill, as well as total assets for the geographic areas of Canada and the United States, correspond to the franchising and generic drugs for Canada and the investment in Rite Aid for United States.

26. Comparative figures

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

General Information

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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 5, 2011 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 26, 2011 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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