The
Jean Coutu
Group (PJC) Inc.

2012
Annual Report

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General information **111**

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 financial performance ("MD&A") should be read in conjunction with the Consolidated Financial Statements and the notes thereto for the fiscal years ended March 3, 2012 and February 26, 2011.

The Jean Coutu Group is one of the most trusted names in Canadian pharmacy retailing. The Corporation operates a network of 399 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 close to 19,000 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 approximately 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 March 3, 2012.

All figures in this report are in Canadian dollars and presented according to International Financial Reporting Standards ("IFRS"). In preparing its comparative information of fiscal year 2011, the Corporation adjusted amounts previously reported in the financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles "Canadian GAAP".

Revenues amounted to $737.2 million during the fourth quarter ended March 3, 2012, compared with $659.8 million during the fourth quarter ended February 26, 2011, an increase of 11.7%. During fiscal year 2012, revenues amounted to $2.733 billion compared with $2.613 billion during the previous fiscal year, a 4.6% increase.

Operating income before amortization ("OIBA") increased to $83.4 million for the fourth quarter of fiscal year 2012 compared with $74.6 million for the fourth quarter of fiscal year 2011. OIBA as a percentage of revenues ended the fourth quarter of fiscal year 2012 at 11.3% same as for the fourth quarter of the previous fiscal year. OIBA as a percentage of revenues ended fiscal year 2012 at 11.4% compared with 11.1% for the previous fiscal year.

Net earnings for the fourth quarter of fiscal year 2012 amounted to $62.0 million ($0.28 per share) compared with $46.5 million ($0.20 per share) during the fourth quarter of fiscal year 2011. Net earnings for the fiscal year 2012 amounted to $230.0 million ($1.03 per share) compared with $182.6 million ($0.78 per share) during fiscal year 2011. This increase is mainly attributable to the solid operational performance of the Corporation and the gain on sale of 17 574 100 shares from Rite Aid for a total consideration of $22.0 million net of transaction fees, as well as by the reversal of 8.1 million dollars of tax provisions.

During the fourth quarter of fiscal year 2012, the PJC network of franchised stores' retail sales increased by 4.9% for comparable periods while, on a same-store basis, they gained 4.2%. During fiscal year 2012, PJC network retail sales increased by 3.8% for comparable periods while, on a same-store and comparable period basis, they gained 2.3% compared with fiscal year 2011.

Gross sales of Pro Doc drugs, net of intersegments eliminations, amounted to $41.6 million during the fourth quarter ended March 3, 2012, compared with $37.4 million during the fourth quarter ended February 26, 2011. Pro Doc's contribution to the consolidated OIBA, amounted to $17.3 million during the fourth quarter ended March 3, 2012, compared with $14.1 million during the fourth quarter ended February 26, 2011. For fiscal year 2012, gross sales of Pro Doc drugs, net of intersegments eliminations, amounted to $148.3 million, compared with $144.3 million for the same period of fiscal year 2011. Pro Doc's contribution to the consolidated OIBA, amounted to $58.5 million in fiscal year 2012, compared with $53.0 million for the same period of fiscal year 2011.

In accordance with the provisions of Rule 144 under the Securities Act of 1933, the Corporation filed on April 17, 2012 a notice confirming its intent to dispose up to 56,000,000 of its 234,401,162 common shares of Rite Aid. On April 20, 2012, the Corporation completed the sale of these 56,000,000 common shares. These shares were sold at an average price of US$1.51 per share for a total proceed of $82.8 million (US$83.6 million), net of related costs. Consequently, a gain of $82.8 million will be recorded in the Corporation's consolidated statement of income during the first quarter of the 2013 fiscal year since the carrying value of the investment in Rite Aid was previously written-off.

"The results of the fourth quarter and fiscal 2012 speak for the excellent performance of our organization. We have successfully continued the implementation of our business plan, allowing us to post a significant growth of the net profit despite the price reduction of generic drugs," said François J. Coutu, President and Chief Executive Officer. "Over the coming year, we will spare no effort to pursue our growth. We will continue to ensure the development of

our offer and we will implement effective marketing strategies in order to contribute to an increase of the retail sales of the PJC network.”

As at March 3, 2012, there were 399 stores in the PJC network of franchised stores.

The Board of the Jean Coutu Group declared a quarterly dividend of $0.07 per share. This dividend will be paid on June 1, 2012, 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 18, 2012.

On May 2, 2012, the Board of Directors approved a notice of intention to repurchase for cancellation, if it is considered advisable, up to 9,398,000 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 6, 2013. The shares will be repurchased through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

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 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 sales 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 our integration in generic drugs with Pro Doc will have a positive impact on the consolidated margins.

Yours truly,

/s/ François J. Coutu

François J. Coutu
President and Chief Executive Officer

CORPORATION 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 Québec 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 approximately 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 399 PJC franchised stores in Québec, 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 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 93% 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 79.4 million prescriptions during fiscal year 2012, for a weekly average of 3,815 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, 11.1% of the front-end retail sales of the PJC franchised stores comes from the sale of 2,925 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 72 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 March 3, 2012 continue to stand out as the best performance in the market. These sales reached $1,315 during that period even when taking into account an increase of the PJC franchised stores' network total square footage and the price reductions of generic drugs decreed by the Québec government during fiscal year 2012.

The average PJC franchised store is a leader in the North American drugstore retailing industry with annual sales of $ 11.8 million for fiscal year 2012.

STRATEGIC INITIATIVES

Expansion and modernization of the network

During fiscal year 2012, we completed several real estate projects in the markets that we serve. We continued to expand our network with the opening of 20 PJC franchised stores, of which 9 were relocations. In addition, 28 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

Several promotional campaigns were introduced during fiscal year 2012 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 numerous events held during the year. We have also set up once more our Summer Tour: The *Fabuleux Cirque Jean Coutu*. The team visited several family attraction sites where they offered participants product samples in partnership with many of our suppliers 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.

Furthermore, during fiscal year 2012, we launched a new service available from our iPhone application: the possibility of having photos printed through a smart telephone. Designed for the iPhone, iPod Touch and iPad platforms, the new *Jean Coutu Photo Boutique* function allows the user to access an entirely new world of photography options in a few easy steps, a first in Canada in the drugstore industry.

Human resources

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.

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.

Furthermore, 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 also maintains close ties to various Schools of Pharmacy informing students and foreign pharmacists registered to the Pharmacy Qualification Program of career opportunities in Jean Coutu affiliated pharmacies and offering them financial support.

Most admired retailer in Québec

We are very pleased to report that the Jean Coutu Group was again ranked as the third most admired enterprise in Québec and first as retailer in a survey conducted by Leger Marketing. This preferred position in the Québec 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 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 before-tax earnings.

In addition to the amounts granted to different organizations actively promoting health and educational initiatives, the Jean Coutu Group and its franchised pharmacist-owners occasionally permit the network of pharmacies to be used for fundraising purposes by organizations whose objectives are compatible with their own. This type of initiative can be taken provincially or nationally in order to support a major cause that benefits all of the communities where there are Jean Coutu affiliated pharmacies.

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' clients.

During fiscal year 2012, the Caution Hypertension program has been supported by a major promotional campaign launched across the entire PJC network. This program allows patients suffering from hypertension, or who are at risk of being affected by this condition, to measure their blood pressure in any Jean Coutu affiliated pharmacies and to register their readings on a personalized memory card.

The PJC Health Record has also been publicised during fiscal year 2012 in order to better inform clients about the advantages of this tool which is a personal record that provides a summary of all the prescriptions listed in the patient's file. Similarly to the Caution Hypertension card, the PJC Health Record is particularly useful when a patient consults a health professional.

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.

This software was recently upgraded to allow pharmacists to document each of their interventions with their customers and to indicate the necessary follow-ups in the customer's record. This information is accessible to the entire team of pharmacists working on successive shifts to ensure the smooth unfolding of the medication therapy. These personalized services favour a climate of trust between patients and pharmacists and reinforce the loyalty of customers to the Jean Coutu network.

AIR MILES™ Reward Program

The AIR MILES Reward Program is Canada's premiere loyalty program, with more than 10 million active households representing approximately two-thirds of all Canadian households.The AIR MILES Reward Program is available in PJC franchised stores in Québec, New Brunswick and Ontario.
As a Sponsor in the Program, we have been able to use various promotional tactics to attract and create loyalty among our customers. But above all, the Program brings us actionable customer insights based on the real shopping behaviors. This strategic marketing tool allows us to differentiate ourselves through targeted initiatives and to adapt our strategies for merchandising or marketing based on customer behaviors and preferences.

Cosmetics

The Jean Coutu network is an important market leader in cosmetics. The cosmetic spaces offer a comprehensive selection of cosmetic lines, from popular to prestige brands, a complete selection of dermo-cosmetic care products and many very specific care lines. A wide selection of makeup products and fragrances is also available as well as many exclusive products. 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 year 2012, 5 new "*Boutiques Passion Beauté*" were added, for a total of 122 boutiques as at March 3, 2012.

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 such as greeting cards, calendars, photobooks, etc. Two new services were recently added: printing on canvas and lamination. In fiscal year 2012, 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 Québec.

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 year 2012, we introduced more than 65 new private brands and exclusive products. We also reviewed the design of some product lines thus generating a renewed interest on the part of our customers. In fact, the packaging of our line of cookies imported from Europe made the finals of the 2012 GaÏa Grand Prizes, a contest whose mission is to reward companies for their efforts relative to graphic design and packaging.
Over the last year, we have multiplied special offers and promotions to increase the penetration rate of our private and exclusive labels and thus generate a significant growth of 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.

Pro Doc holds a portfolio of about 130 generic molecules and 270 different products.

The generic drugs manufactured by Pro Doc are almost exclusively sold in Québec to wholesalers, such as the Jean Coutu Group, and pharmacists under its trademark "*Pro Doc*".

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

NEW INITIATIVES IN FISCAL YEAR 2013

This paragraph contains forward-looking statements that involve risks and uncertainties. Although, we believe that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct.

During fiscal year 2013, 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 strive to 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 and it should contribute to an increase in sales. In fiscal year 2013, we plan to open 14 new PJC franchised stores, relocate 4 stores, complete 21 renovation and expansion projects and open one "*Boutique 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 year 2010, the Corporation's share of loss in Rite Aid exceeded the carrying value of its investment. As required by the International Financial Reporting Standards (IFRS), 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 an equity interest in Rite Aid. Readers are referred to notes 14 and 34 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for further information on Rite Aid's investment.

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

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 financial performance ("MD&A") should be read in conjunction with the Consolidated Financial Statements and the notes thereto for the fiscal years ended March 3, 2012 and February 26, 2011.

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FISCAL YEAR

The Corporation's reporting calendar is based on the US National Retail Federation 4-5-4 merchandising calendar. Accordingly, the Corporation's fiscal year is usually 52 weeks in duration but includes a 53rd week every 5 to 6 years. The fiscal year ended March 3, 2012 contains 53 weeks while the fiscal year ended February 26, 2011 contained 52 weeks. The quarter ended March 3, 2012 contains 14 weeks compared with 13 weeks for the quarter ended February 26, 2011.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

For all years, up to and including fiscal year ending February 26, 2011, the Corporation prepared its Consolidated Financial Statements in accordance with the Generally Accepted Accounting Principles of Canada ("Canadian GAAP"). Because of the replacement of Canadian GAAP by the International Financial Reporting Standards ("IFRS") for publicly accountable enterprises in Canada for the years beginning on or after January 1, 2011, the Consolidated Financial Statements for fiscal year 2012 are the Corporation's first Annual Consolidated Financial Statements issued in accordance with IFRS, published by the International Accounting Standards Board ("IASB"). The Corporation has adopted IFRS according to IFRS 1, First application of the International Financial Reporting Standards ("IFRS 1"), as described in Note 33 of the Corporation's Consolidated Financial Statements for fiscal year 2012. The comparative figures were adjusted to take into account the IFRS.

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 associate - Rite Aid, 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 whose revenues come from the sale of generic drugs to wholesalers and pharmacists. The Corporation has two geographic areas that correspond to the franchising and generic drugs for Canada and the investment in Rite Aid for the United States.

Revenue – Franchising

Revenue consists 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 revenue. PJC franchised stores' retail sales are not included in our revenue. However, any change in their retail sales directly affects our revenue since PJC franchisees purchase most of their inventory from our distribution centres.

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

Revenue – Generic drugs
Revenue consists of generic drugs' sale of the subsidiary Pro Doc.

Share of earnings in associate – Rite Aid
The Corporation holds an equity interest in Rite Aid. This investment is accounted for using the equity method, which the Corporation uses to record 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 IFRS, 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 did not commit to providing it with further financial support.

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

OVERALL PERFORMANCE FOR FISCAL YEARS 2012 AND 2011

The Corporation assesses the performance of its franchising and generic drugs segments based on its operating income before amortization "OIBA". The Corporation records intersegment operations at exchange value. During fiscal years 2012 and 2011, no share of earnings in Rite Aid was accounted in the Corporation's earnings. However, a gain on sales of investment in associate Rite Aid was recorded during fiscal year ended March 3, 2012. The investment in Rite Aid is accounted for using the equity method as described in Note 14 of the Corporation's Consolidated Financial Statements for fiscal year 2012. Readers are referred to the "Information on Rite Aid" section of this MD&A for further information.

KEY SEGMENTS RESULTS FOR FISCAL YEARS 2012 AND 2011

	Fiscal year	
(in millions of dollars)	**2012** **53 weeks**	2011 52 weeks
	$	$
Revenue [1]		
Franchising	**2,729.0**	2,606.0
Generic drugs	**124.0**	124.5
Intersegment sales	**(119.9)**	(117.7)
	2,733.1	2,612.8
Operating income before amortization ("OIBA")		
Franchising	**252.7**	237.5
Generic drugs	**58.1**	60.1
Intersegment eliminations	**0.4**	(7.1)
	311.2	290.5

[1] Revenue includes sales and other revenues.

Modifications decreed by competent authorities with respect to drug pricing
The "Conseil du Médicament du Québec" published a notice to generic drugs manufacturers regarding transition measures to respecting Canada's best price established in the context of the price reduction of generic drugs in Ontario. This notice stated future transition measures to help manufacturers adapt to this new regulatory environment, which are summarized as follows:

From April 19, 2011 until April 19, 2012, if Canada's best price for a generic product was equal to or less than 30% of the price of the brand name drug in Québec, the price of the generic product could be 30% of the price of the brand name drug.

Since April 20, 2012, generic product prices cannot be higher than any selling price granted to other provincial drug insurance programs.

Also, the Regulation amending the Regulation respecting benefits authorized for pharmacists was 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 16.5 % of the total value of sales of generic drugs by the manufacturer from April 2011 until April 2012, to 15% since April 1st, 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) since 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 to 6.25 % of the manufacturer's guaranteed selling price in relation to the package size purchased, in April 2011 and to 6.5% in April 2012.

Revenue

Franchising revenue amounted to $2.729 billion during fiscal year ended March 3, 2012, compared to $2.606 billion during the fiscal year ended February 26, 2011, an increase of 4.7%. This increase is attributable to the additional week in fiscal year 2012, 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.

Pro Doc's revenue generated by its generic drugs' sales amounted to $124.0 million during the fiscal year ended March 3, 2012, compared with $124.5 million during the fiscal year ended February 26, 2011. The increase in purchases of generic drugs by Québec pharmacists has compensated in great part for the deflationary impact on revenues from the price reduction of generic drugs decreed by the Québec Government resulting in a slight decrease in Pro Doc's revenue.

OIBA

OIBA from franchising activities amounted to $252.7 million, an increase of $15.2 million for fiscal year 2012 compared with $237.5 million for fiscal year 2011. This increase is mostly attributable to the additional week in fiscal year 2012 as well as a strong operational performance.

Pro Doc's OIBA from sale of generic drugs activities, net of intersegments eliminations, increased by $5.5 million to $58.5 million during fiscal year 2012 compared to $53.0 million during fiscal year 2011. This increase is attributable to the additional week in fiscal year 2012, a solid operational performance and to the increase in purchases of generic drugs by Québec pharmacists.

SELECTED ANNUAL INFORMATION FOR FISCAL YEARS 2012, 2011 AND 2010

The following table presents selected financial information and consolidated operating results for the fiscal years ended March 3, 2012, February 26, 2011 and February 27, 2010.

	IFRS		Canadian GAAP
	Fiscal year		
(in millions of dollars, except per share amounts)	**2012 53 weeks**	2011 [1] 52 weeks	2010 [2] 52 weeks
	$	$	$
Sales	**2,463.2**	2,348.7	2,298.4
Other revenues	**269.9**	264.1	244.7
Revenue [3]	**2,733.1**	2,612.8	2,543.1
Gross profit	**278.9**	257.1	229.5
Operating income before amortization ("OIBA")	**311.2**	290.5	268.8
Financing expenses (revenues)	**1.0**	1.1	(4.2)
Gain on sale and share of loss in associate Rite Aid	**22.0**	-	(55,2)
Income taxes	**71.8**	77.9	74.9
Net profit	**230.0**	182.6	112.6
Earnings per share, basic and diluted	**1.03**	0.78	0.48
Cash dividend per share	**0.24**	0.22	0.18
Total asset	**1,072.8**	1,059.7	984.9
Long-term debt [4]	**149.9**	184.8	199.9

(1) In preparing its comparative information for fiscal year 2011 according to IFRS, the Corporation adjusted the amounts previously reported in the financial statements prepared in accordance with Canadian GAAP. Readers are referred to Note 33 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for further information on the transition to IFRS.

(2) The operating income before amortization was a non-GAAP measure. Furthermore, other revenues included the amortization of banner development costs.

(3) Revenue includes sales and other revenues.

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

COMPARISON OF CONSOLIDATED RESULTS FOR FISCAL YEARS ENDED MARCH 3, 2012, FEBRUARY 26, 2011 AND FEBRUARY 27, 2010

Readers are referred to the "Overall performance for fiscal years 2012 and 2011" section of this MD&A for further information about the modifications decreed by competent authorities with respect to drug pricing.

Revenues

Sales amounted to $2.463 billion during the fiscal year ended March 3, 2012, compared with $2.349 billion during the fiscal year ended February 26, 2011, an increase of 4.9%. This increase is attributable to the additional week in fiscal year 2012, 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 fiscal year 2011, sales had increased by $50.3 million to $2.349 billion compared with $2.298 billion during fiscal year 2010. 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 $269.9 million during fiscal year 2012 compared with $264.1 million during fiscal year 2011. This increase is attributable to the additional week in fiscal year 2012 as well as the increase in rental revenues and other services related to the expansion of the PJC network of franchised stores. Other revenues had

increased by 7.9% during fiscal year 2011 compared with fiscal year 2010. This increase is attributable, on one hand, to the fact that the amortization of intangible assets, amounting to $12.7 million for fiscal year 2010, was applied against other revenues according to Canadian GAAP while it is presented with the depreciation and amortization charge according to IFRS. Had it not been for this reclassification, the increase of other revenues for 2011 would only have been of 2.6 % and would be explained by the increase in rental revenues and other services related to the expansion of the PJC network of franchised stores.

Gross profit
Gross profit amounted to $278.9 million during fiscal year 2012 compared with $257.1 million during fiscal year 2011, an increase of 8.5%. Gross profit had increased by $27.6 million or 12.0% during fiscal year 2011 compared with fiscal year 2010. For fiscal year 2012, gross margin, calculated as percentage of sales, was 11.3% compared with 10.9% during fiscal year 2011 and 10.0% during fiscal year 2010. These increases in gross margin are mainly attributable to the additional gross margin generated by Pro Doc operations, despite the reductions in generic drug prices decreed by the Québec Government.

OIBA
OIBA increased by $20.7 million to $311.2 million during the fiscal year ended March 3, 2012 compared with $290.5 million during the fiscal year ended February 26, 2011. This increase is mostly attributable to the additional week in fiscal year 2012 and to a strong operational performance in the franchising activities and of the subsidiary Pro Doc Ltd, despite the price reduction of generic drugs decreed by the Québec Government. OIBA as a percentage of revenues was 11.4% for fiscal year 2012 compared with 11.1% for fiscal year 2011.

During the fiscal year ended February 26, 2011, OIBA had increased by $21.7 million to $290.5 million compared with $268.8 million during 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 price reduction of generic drugs decreed by the Québec Government. OIBA as a percentage of revenues was 11.1% for fiscal year 2011 compared with 10.6% for fiscal year 2010.

Financing expenses (revenues)
Financing expenses amounted to $1.0 million during fiscal year 2012 compared with financing expenses of $1.1 million recorded during fiscal year 2011 and with financing revenues of $4.2 million recorded during fiscal year 2010. Financing expenses include interests on long term debt which remained relatively stable during years 2010 to 2012. However, financing expenses also include the increase in fair value of third party asset backed commercial paper and relative options of repayment which fluctuated during those years, going from $4.6 million in 2010 to $1.0 million in 2011 and $1.9 million in 2012. Readers are referred to Note 8 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for more information on financing expenses and revenues.

Share of earnings in associate - Rite Aid
No share of loss in Rite Aid was accounted in the Corporation's earnings during fiscal years 2012 and 2011 compared with $55.2 million ($0.23 per share) during fiscal year 2010. This charge was a non-cash transaction. A gain on sale of Rite Aid's shares in the amount of $22.0 million, net of transaction fees, was recorded during fiscal ended March 3, 2012.

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

Income taxes
Income tax expense amounted to $71.8 million during fiscal year 2012 compared with $77.9 million during fiscal year 2011 and $74.9 million during fiscal year 2010. The decrease is mainly attributable to the fact that during the fiscal year 2012, the Corporation reviewed its tax provisions according to the progress of tax audits processes and oppositions to tax audits currently underway. Consequently, an amount of $8.1 million was reversed to the income of fiscal year 2012.

Net profit
Net profit for fiscal year ended March 3, 2012 amounted to $230.0 million ($1.03 per share) compared with $182.6 million ($0.78 per share) for fiscal year ended February 26, 2011. This increase is mainly attributable to a strong operational performance and to the gain on sale of 17 574 100 shares from Rite Aid recorded during the second quarter of fiscal year 2012, for a total consideration of $22.0 million, net of transaction fees and to the reversal of $8.1 million of tax provisions.

Net profit of $112.6 million ($0.48 per share), accounted for according to Canadian GAAP for fiscal year 2010 takes in consideration the share of loss in Rite Aid in the amount of $55.2 million ($0.23 per share).

QUARTERLY RESULTS

QUARTERLY CONSOLIDATED FINANCIAL INFORMATION – UNAUDITED

The following table presents selected quarterly data and operating results for the periods ended March 3, 2012 and February 26, 2011.

(unaudited, in millions of dollars, except per share amounts)	**Q4-2012 14 weeks**	Q4-2011[1] 13 weeks
	$	$
Sales	**664.9**	591.4
Other revenues	**72.3**	68.4
Revenue [2]	**737.2**	659.8
Gross profit	**74.6**	66.2
Operating income before amortization ("OIBA")	**83.4**	74.6
Financial expenses (revenues)	**(0.6)**	-
Net profit	**62.0**	46.5
Earnings per share, basic	**0.28**	0.20

(1) In preparing its comparative information for fiscal year 2011 according to IFRS, the Corporation adjusted the amounts previously reported in the financial statements prepared in accordance with Canadian GAAP. Readers are referred to Note 33 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for further information on the transition to IFRS.

(2) Revenue includes sales and other revenues.

COMPARISON OF THE CONSOLIDATED QUARTERLY RESULTS FOR THE PERIODS ENDED MARCH 3, 2012 (Q4-2012) AND FEBRUARY 26, 2011 (Q4-2011)

Revenue

Sales amounted to $664.9 million during the fourth quarter ended March 3, 2012, compared with $591.4 million during the fourth quarter ended February 26, 2011, an increase of 12.4%. This increase is attributable to the additional week in fiscal year 2012, overall market growth and the expansion of the PJC network of franchised stores, despite the deflationary impact on revenue due to the introduction of the generic version of large volume drugs as well as the price reductions of generic drugs decreed by the Québec Government.

Other revenues amounted to $72.3 million during the fourth quarter of fiscal year 2012 compared with $68.4 million during the fourth quarter of fiscal year 2011. This increase is attributable to the additional week in fiscal year 2012, higher 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 2012, gross profit amounted to $74.6 million compared with $66.2 million during the fourth quarter of the previous fiscal year, an increase of 12.7%. This increase is attributable to the increase in sales during the fourth quarter of fiscal years 2012. For the fourth quarter ended March 3, 2012, gross profit calculated as percentage of sales was 11.2% same as the fourth quarter of the previous fiscal year.

OIBA

OIBA increased by $8.8 million to $83.4 million for the fourth quarter of fiscal year 2012 compared with $74.6 million for the fourth quarter of fiscal year 2011. This increase is mostly attributable to the additional week in the fourth quarter of fiscal year 2012 and to a strong operational performance in the franchising activities. OIBA as a percentage of revenue ended the fourth quarter of fiscal year 2012 at 11.3% same as the fourth quarter of previous fiscal year.

Financing expenses (revenues)
Financing revenues amounted to $0.6 million during the fourth quarter of fiscal year 2012, compared with net null financing expense during the fourth quarter of fiscal year 2011. This fluctuation is essentially due to the recording of a $1.3 million increase in the fair value of the third party asset backed commercial paper during the fourth quarter of fiscal year 2012 compared with a $0.7 million increase recorded during the previous period.

Income Tax expense
Income tax expense amounted to $14.2 million during the fourth quarter of fiscal year 2012, compared with $20.1 million during the fourth quarter of fiscal year 2011. The decrease is mainly attributable to the fact that during the fourth quarter of fiscal year 2012, the Corporation reviewed its tax provisions according to the progress of tax audits processes and oppositions to tax audits currently underway. Consequently, an amount of $8.1 million was reversed to the income of fiscal year 2012.

Net profit
Net profit during the fourth quarter ended March 3, 2012 amounted to $62.0 million ($0.28 per share) compared with $46.5 million ($0.20 per share) during the fourth quarter of fiscal year 2011. The increase in net profit is attributable to the additional week in the fourth quarter of fiscal year 2012, the strong operational performance of the Corporation and the reversal of $8.1 million of tax provisions.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION – UNAUDITED

	IFRS							
(unaudited, in millions of dollars, except per share amounts)	**Q4-2012[1]**	Q3-2012	Q2-2012	Q1-2012	Q4-2011	Q3-2011	Q2-2011	Q1-2011
	$	$	$	$	$	$	$	$
Revenue								
Franchising	**736.2**	698.7	634.6	659.5	657.9	680.0	622.2	645.9
Generic drugs	**35.5**	34.2	24.9	29.4	23.5	38.8	39.2	23.0
Intersegment sales	**(34.5)**	(32.8)	(24.3)	(28.3)	(21.6)	(37.7)	(35.8)	(22.6)
	737.2	700.1	635.2	660.6	659.8	681.1	625.6	646.3
Operating income before depreciation and amortization ("OIBA")								
Franchising	**66.1**	64.5	58.5	63.6	60.5	61.5	55.0	60.5
Generic drugs	**17.2**	17.2	10.2	13.5	11.4	18.3	20.6	9.8
Intersegment eliminations	**0.1**	(1.8)	2.1	-	2.7	(3.5)	(6.3)	-
	83.4	79.9	70.8	77.1	74.6	76.3	69.3	70.3
Net profit	**62.0**	51.7	66.4	49.9	46.5	48.8	43.4	43.9
Basic and diluted earnings per share	**0.28**	0.23	0.29	0.22	0.20	0.21	0.18	0.19

[1] Q4-2012 was a 14 week-period.

Revenue as well as operating income before depreciation and amortization ("OIBA") vary according to seasons. There has been a progression in our revenue as well as for the OIBA for each comparable quarter for 2012, which is mainly 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.

The net profit for Q2-2012 included a gain on sale of shares of Rite Aid for a total consideration of $22.0 million, net of transaction fees.

The net profit for Q4-2012 included a reversal of $8.1 million of tax provisions.

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 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 PJC franchised stores' financial results are not included in the Corporation's Consolidated Financial Statements.

Expansion of the PJC network of franchised stores

As at March 3, 2012, there were 399 stores in the PJC network of franchised stores compared with 389 as at February 26, 2011. During fiscal year 2012, there were 20 store openings in the PJC network of franchised stores, including 9 relocations and, the closing of one store, compared with 30 openings, including 9 relocations and the closing of 2 stores during the previous fiscal year.

	Quarter		Fiscal year	
Network performance *(unaudited)*	**Q4-2012 14 weeks**	Q4-2011 13 weeks	**2012 53 weeks**	2011 52 weeks
Retail sales *(in millions of dollars)*	**$1,117.3**	$988.5	**$4,001.8**	$3,778.5
Retail sales per square foot *(in dollars)* [1]	**$1,315**	$1,328		
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)* [2]				
Total stores				
Total	**4.9%**	3.9%	**3.8%**	3.9%
Pharmacy	**5.1%**	3.4%	**3.7%**	3.9%
Front-end	**4.9%**	4.2%	**3.9%**	3.2%
Same store [3]				
Total	**4.2%**	1.4%	**2.3%**	1.6%
Pharmacy	**4.4%**	0.9%	**2.0%**	1.9%
Front-end	**4.2%**	1.5%	**2.6%**	0.3%
Prescriptions growth *(in percentage)* [2]				
Total stores	**6.5%**	8.5%	**7.3%**	7.1%
Same store [3]	**5.7%**	5.8%	**5.5%**	5.1%

(1) The last 12-month store sales are divided by the weighted average square footage for this period.
(2) Information on growth was established on a comparable number of weeks.
(3) 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 2012, on a same-store and comparable periods basis, PJC network retail sales grew by 2.3%, pharmacy sales gained 2.0% and front-end sales increased by 2.6% compared with the previous fiscal year. During fiscal year 2012, sales of non-prescription drugs, which represented 9.0% of total retail sales, increased by 3.5% for comparable periods. These sales had increased by 3.2% during the previous fiscal year.

Generic drugs reached 57.0% of prescriptions during fiscal year 2012 compared with 53.8% during 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 1.8% and the price reduction of generic drugs decreed by the Québec Government reduced pharmacy's retail sales growth by 2.9% during fiscal year 2012.

INFORMATION ON RITE AID

Investment in associate – Rite Aid

As of March 3, 2012, the Corporation held an equity interest of 26.1% in Rite Aid (February 26, 2011 - 28.3%). Rite Aid is one of United States' leading drugstore chains, operating approximately 4,700 drugstores. The equity interest in Rite Aid represents an investment in associate, which is accounted for using the equity method. On March 3, 2012, the quoted market value of equity interest in Rite Aid was US$391.4 million (February 26, 2011 - US$322.5 million).

In accordance with the provisions of Rule 144 under the Securities Act of 1933, as at July 5, 2011, the Corporation filed a notice confirming its intent to dispose approximately 25,000,000 common shares of Rite Aid. For the fiscal year ended March 3, 2012, the Corporation sold 17,574,100 common shares of Rite Aid for a total consideration of $22.0 million (US$22.9 million), net of related costs, which has been recorded in the gains on sales of investment in associate Rite Aid since the carrying value of this investment had been written down to zero.

In accordance with the provisions of Rule 144 under the Securities Act of 1933, the Corporation filed on April 17, 2012 a notice confirming its intent to dispose up to 56,000,000 of its 234,401,162 common shares of Rite Aid. On April 20, 2012, the Corporation completed the sale of these 56,000,000 common shares. These shares were sold at an average price of US$1.51 per share for a total proceed of $82.8 million (US$83.6 million), net of related costs. Consequently, a gain of $82.8 million will be recorded in the Corporation's consolidated statement of income during the first quarter of fiscal year 2013 since the carrying value of the investment in Rite Aid had been written down to zero.

The sale of these shares brings the Corporation's interest in Rite Aid's outstanding common shares down to 19.85% and, as stipulated in the stockholder agreement between the Corporation and Rite Aid, the number of the Corporation's representatives on Rite Aid's Board of Directors is reduced from 3 to 2 members and the Corporation loses its representation on the Executive Committee of Rite Aid. The Corporation has concluded that this generates a loss of significant influence of the Corporation over Rite Aid and, according to the IFRS changes the accounting of the investment in Rite Aid. This investment, which was previously considered as an investment in an associate and accounted for under the equity method, will now be considered as an available-for-sale investment and will be accounted for at fair value. This change will generate a non-cash gain of $265.2 million (US$267.6 million) in the Corporation's consolidated statement of income in the first quarter of fiscal year 2013, which is the fair value of the 178,401,162 common shares that the Corporation still owns as of the date of its loss of significant influence. Subsequent changes in the fair value of the investment in Rite Aid will be accounted for in the Corporation's consolidated statement of comprehensive income.

During 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 IFRS, 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 did not commit to providing it with further financial support. The Corporation's unrecognized share of loss in Rite Aid for fourth quarter ending March 3, 2012 as well as for fiscal year 2012 amounted to $12.9 and $40.8 million, respectively. The unrecognized share of loss in Rite Aid for fiscal year 2012 is net of a dilution gain related to the partial sales of this investment. As at March 3, 2012, the Corporation's total unrecognized share of loss in Rite Aid amounted to $298.7 million (February 26, 2011 - $257.9 million).

The following selected financial information as well as the consolidated statement of income, were extracted from the April 12, 2012 press release disclosing Rite Aid's results for the 14 and 53-week periods ended March 3, 2012.

SELECTED FINANCIAL INFORMATION – CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – RITE AID

(in millions of US dollars and under US GAAP)	**March 3, 2012[(1)]**	February 26, 2011
	$	$
Current assets	**4,504.6**	4,411.4
Property, plant and equipment, net	**1,902.0**	2,039.4
Other intangibles, net	**528.8**	646.2
Other assets	**428.9**	458.9
Total assets	**7,364.3**	7,555.9
Current liabilities	**2,570.3**	2,420.3
Long-term debt	**6,248.8**	6,156.8
Other noncurrent liabilities	**1,131.9**	1,190.1
Stockholders' deficit	**(2,586.7)**	(2,211.3)
Total liabilities and stockholders' deficit	**7,364.3**	7,555.9

(1) Unaudited financial information

Some of this information would have been different if Rite Aid had used the same accounting policies as the Jean Coutu Group, and had prepared its consolidated financial statements using IFRS. 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 financial information from Rite Aid's consolidated statements of financial position using IFRS:

(unaudited, in millions of US dollars)	**March 3, 2012**	February 26, 2011
	$	$
Total assets	**8,277.6**	8,299.5
Total liabilities	**9,790.7**	9,621.9
Stockholders' deficit	**(1,513.1)**	(1,322.4)

RITE AID'S CONSOLIDATED STATEMENTS OF INCOME FOR QUARTERS AND FISCAL YEARS ENDED MARCH 3, 2012 AND FEBRUARY 26, 2011

	Quarter		Fiscal year	
(unaudited, in millions of US dollars, except per share amounts and under US GAAP)	**Q4-2012 14 weeks**	Q4-2011 13 weeks	**2012 53 weeks**	2011 52 weeks
	$	$	**$**	$
Revenue	**7,146.7**	6,456.5	**26,121.2**	25,214.9
Costs and expenses				
Cost of goods sold	**5,364.7**	4,755.5	**19,327.9**	18,522.4
Selling, general and administrative expenses	**1,758.3**	1,630.1	**6,531.4**	6,457.8
Lease termination and impairment charges	**56.3**	154.0	**100.1**	210.9
Interest expense	**137.7**	132.5	**529.2**	547.6
Loss on debt modifications and retirements, net	**16.1**	-	**33.6**	44.0
Gain on sale of assets, net	**(0.9)**	(11.4)	**(8.7)**	(22.2)
Loss before income taxes	**185.5**	204.2	**392.3**	545.6
Income tax expense	**(24.2)**	1.5	**(23.7)**	9.8
Net loss	**161.3**	205.7	**368.6**	555.4
Basic and diluted loss per share	**0.18**	0.24	**0.43**	0.64

This information would have been different if Rite Aid had used the same accounting policies as the Jean Coutu Group, and had prepared its consolidated financial statements using IFRS. 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 income using IFRS:

(unaudited, in millions of US dollars)	Quarter		Fiscal year	
	Q4-2012	Q4-2011	**2012**	2011
	14 weeks	13 weeks	**53 weeks**	52 weeks
	$	$	**$**	$
Revenue	**7,146.7**	6,456.5	**26,121.2**	25,214.9
Net loss	**44.2**	204.9	**183.8**	509.2

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 14 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for further information on its investment in Rite Aid.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

The Corporation's cash flows are generated by: i) merchandise sales and rental revenue from PJC franchised stores, ii) royalties paid by 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. The Corporation has typically financed capital expenditures and working capital requirements through cash flows from operating activities.

SELECTED CONSOLIDATED INFORMATION ON LIQUIDITY

The following table presents selected information from the consolidated statements of cash flows for fiscal years ended March 3, 2012 and February 26, 2011.

(unaudited, in millions of dollars)	Fiscal year	
	2012	2011
	53 weeks	52 weeks
	$	$
Cash flow provided by operating activities	**245.0**	213.5
Cash flow used in investing activities	**(16.9)**	(89.6)
Cash flow used in financing activities	**(216.6)**	(127.1)

COMPARISON OF THE CONSOLIDATED INFORMATION ON LIQUIDITY FOR FISCAL YEARS ENDED MARCH 3, 2012 AND FEBRUARY 26, 2011

Cash flow related to operating activities

Cash provided by operating activities amounted to $245.0 million during fiscal year 2012 compared with $213.5 million during fiscal year 2011. Readers are referred to Note 31 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for a listing of the net changes in non-cash asset and liability items.

Cash flow related to investing activities

Cash used for investing activities during fiscal year 2012 amounted to $16.9 million compared with $89.6 million used during fiscal year 2011.This is explained, among others, by the fact that during fiscal year 2012, the Corporation sold 17,574,100 common shares of Rite Aid for a total consideration of $22.0 million (US$22.9 million – no share was sold in fiscal year 2011), net of related costs. Also, $24.9 million and $22.7 million were used to acquire property and equipment and for intangible assets respectively, whereas, during fiscal year 2011, $43.5 million were used to acquire property and equipment and $45.5 million for intangible assets. During fiscal year 2012, 20 new stores were opened in the PJC franchised stores network, including 9 relocations. Furthermore, 28 stores were expanded or significantly renovated.

Cash flow related to financing activities

Cash used for financing activities during fiscal year 2012 amounted to $216.6 million compared with $127.1 million during fiscal year 2011. During fiscal year 2012, 34.9 million were used to reimburse the Corporation’s revolving credit facility compared with $15.1 million during fiscal year 2011. Furthermore, during fiscal year 2012, $126.3 million were used to repurchase Class A subordinate voting shares compared with $60.8 million during fiscal year 2011. The Corporation paid a quarterly dividend of $0.06 per Class A subordinate voting share and Class B share during fiscal year 2012 for a total of $53.8 million (annualized dividend of $0.24 per share). During fiscal year 2011, the Corporation had paid a quarterly dividend of $0.055 per Class A subordinate voting share and Class B share for a total of $51.4 million (annualized dividend of $0.22 per share).

THIRD PARTY ASSET-BACKED COMMERCIAL PAPER

On March 3, 2012, the Corporation held third party asset backed commercial paper ("ABCP") of a nominal amount of $23.5 million. As at Mach 3 2012, nominal values of Master Asset Vehicles (“MAV”) II and MAV III notes are $23.2 million for traditional assets tracking notes (A1 - $10.4 million, A2 - $10.2 million, B - $1.9 million, C - $0.7 million) and $0.3 million of traditional assets tracking notes, respectively. As at March 3, 2012, the total loss in value recorded was $4.5 million representing 19.1% of the ABPC’s nominal value at that date.

ABCP are accounted for at their fair value through profit or loss. Fair value was $19.0 million as of March 3, 2012 (February 26, 2011 - $20.2 million). The Corporation valued its ABCP as at March 3, 2012. 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.

LONG-TERM DEBT

On November 10, 2011, the Corporation entered into an unsecured revolving credit facility in the amount of $500.0 million maturing on November 10, 2016. Applicable interest rate for the credit facility is Canadian prime rate plus a variable margin (totalling 3% as at March 3, 2012) or banker acceptance rate plus a variable margin (totalling 2.05% as at March 3, 2012). Margins depend on the achievement of certain financial ratios. As at March 3, 2012, this credit facility was unused.

The Corporation had access to an unsecured revolving credit facility in the amount of $500 million maturing on May 8, 2012. On November 10, 2011, the Corporation permanently reduced this unsecured revolving credit facility to an amount equal to $200.0 million. Applicable interest rate for the credit facility is Canadian prime rate plus a variable margin (totalling 3.00% as at March 3, 2012 as well as at February 26, 2011) or banker acceptance rate plus a variable margin (totalling 1.65% as at March 3, 2012 as well as February 26, 2011). Margins depend on the achievement of certain financial ratios. As at March 3, 2012, $150.3 million of the available credit facilities were used (February 26, 2011 - $185.3 million), including outstanding letters of credit of $0.3 million (February 26, 2011 - $0.3 million).

The Corporation does not expect any liquidity issues. The Corporation's cash flow is provided by its operating activities and it has access to credit facilities in order to finance its projects. As at March 3, 2012, 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.

For further details, readers are referred to Note 27 of the Corporation's Consolidated Financial Statements for fiscal year 2012.

CAPITAL STOCK

On May 2, 2011, the Corporation announced its intention to repurchase for cancellation, up to 10,400,000 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, 2012. The shares were repurchased through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

On April 29, 2010, the Corporation had announced its intention to repurchase for cancellation, 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. During the term of this repurchase program, 6,819,900 shares have been repurchased through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

For fiscal years ended March 3, 2012 and February 26, 2011, the Corporation repurchased 10,400,000 and 6,819,900 Class A subordinate voting shares at an average price of $11.93 and $9.23 per share for a total consideration of $124.1 million and and $63.0 million including related costs, respectively. Amounts of $68.6 million and $26.4 million, representing the excess of the purchase price over the carrying value of the repurchased shares were included in retained earnings for fiscal years ended March 3, 2012 and February 26, 2011, respectively. The shares repurchased during fiscal year ended March 3, 2012 were cancelled during this period. The shares repurchased during fiscal year ended February 26, 2011 were cancelled during this period, except for 287,200 shares that were cancelled after February 26, 2011.

On May 2, 2012, the Board of Directors approved a notice of intention to repurchase for cancellation, if it is considered advisable, up to 9,398,000 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 6, 2013. The shares will be repurchased through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

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.

For fiscal year ended March 3, 2012, 69,890 Class A subordinate voting shares were issued following stock option exercises (23,616 shares in 2011).

As at March 3, 2012, the total number of Class A subordinate voting shares (TSX: PJC.A.) issued and outstanding was 104.8 million (115.4 million as at February 26, 2011), and the number of Class B shares was 114.4 million (114.4 million as at February 26, 2011). Thus, the total number of outstanding shares was 219.2 million as at March 3, 2012, compared with 229.8 million as at February 26, 2011.

As at May 2, 2012, the total number of Class A subordinate voting shares (TSX: PJC.A.) issued and outstanding was 104.8 million (115.1 million as at April 27, 2011) and the number of Class B shares was 114.4 million (114.4 as at April 27, 2011). Thus, the total number of outstanding shares was 219.2 million as at May 2, 2012 compared with 229.5 millions as at April 27, 2011.

Furthermore, as of May 2, 2012, 1.9 million Class A subordinate voting shares stock options were outstanding compared with 2.0 million as at April 27, 2011.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents a summary of the Corporation's main contractual cash obligations as at March 3, 2012, for the fiscal years indicated, under our long-term debt, long-term leases, services and capital assets commitments:

(unaudited, in millions of dollars)	**2013**	**2014-2015**	**2016-2017**	**2018 and thereafter**	**Total**
	$	$	$	$	$
Long term debt [1]	149.9	-	-	-	149.9
Operating lease obligations [2]	44.3	81.7	79.6	252.5	458.1
Purchase obligations [3]	13.8	9.1	0.8	0.3	24.0
Total	208.0	90.8	80.4	252.8	632.0

(1) Long term debt includes the short term portion and reflects only the balance used as at March 3, 2012.

(2) Obligations pursuant to operating leases are made up of non-cancellable future minimum payments and exclude receipts from operating subleases for buildings. Readers are referred to Note 27 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for more information.

(3) Purchase obligations include minimum payments that are already the subject of contractual agreements as at March 3, 2012 and include the most likely price and volume estimates when the situation requires. They are mainly commitments regarding our property, plant & equipment and service agreements. Since purchase obligations reflect market conditions at the time the obligation was incurred, they may not be representative of future years. Obligations from personnel compensation contracts or any collective agreement are excluded.

Defined benefit pension obligations

As at March 3, 2012, the Corporation had a defined benefit obligation of $2.7 million included in other long-term liabilities of the consolidated statement of financial position with respect to defined benefit pension plans. This liability is not reflected in the contractual obligations and commercial commitments table in this section because it has no fixed maturity date forecasted. Contributions for fiscal year 2013 with respect to defined benefit pension plans are $3.2 million.

Funding obligations generally depend on a number of factors, including the assumptions used in the most recent actuarial valuation reports, the laws in effect regarding retirement and the developing economic situation. The actual amount of contributions may differ from forecasts.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

The Corporation does not use any off-balance sheet arrangements that currently have, or are reasonably likely expected to have, a material effect on its financial condition, financial performance 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 surrounding market's interest rate, the Corporation may, in the future, use derivative financial instruments or other interest rate management vehicles.

Readers are referred to Note 30 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for further information on other risks related to financial instruments to which the Corporation is exposed to.

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. During the fourth quarter of fiscal 2012, an agreement was reached with the IRS without any amount payable or refund. Therefore, the Corporation reversed the provision previously recorded with respect to this issue. Some tax audits conducted by other jurisdictions are still ongoing. Although these audits' final outcome cannot be determined with certainty, the Corporation believes its provision, including the portion recorded during the fiscal year 2012, 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 March 3, 2012, the Corporation had guaranteed the reimbursement of certain bank loans contracted by franchisees for a maximum amount of $1.1 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 March 3, 2012, financing related to the equipment and inventories buyback agreements were $76.0 million and $111.5 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 March 3, 2012 and February 26, 2011 Consolidated Financial Statements.

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.

RELATED PARTY TRANSACTIONS

Franchising activities include transactions with enterprises controlled by executives with significant influence on the Corporation or close member of these executives' family. Those executives or close members of their family held a participation in 8 PJC franchises as at March 3, 2012. The transactions between the Corporation and these enterprises are carried out in the normal course of business and are made under the same terms and conditions as those made with other franchisees.

Readers are referred to Note 29 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for further information on related party transactions and for the detail on the key management personnel compensation.

As at March 3, 2012, Mr. Jean Coutu held the ultimate control of the Jean Coutu Group (PJC) Inc.

CRITICAL ACCOUNTING ESTIMATES

This MD&A is based on the Corporation's Consolidated Financial Statement prepared according to IFRS. The preparation of the Consolidated Financial Statements requires management to make certain judgments, estimates and assumptions, which 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Detailed information on these significant estimates is presented hereafter.

Inventories

Inventories consist of products available for sale, including prescription drugs and over-the-counter medications, as well as household, cosmetics and photography products. Inventories are measured at the lower of cost and net realizable value. The cost is net of some vendor allowances and is determined using the first in, first out method. The evaluation of any impairment or inventory loss to bring them to their net realizable value may affect the evaluation of closing inventory and the Corporation's consolidated results.

Long-term receivables from franchisees

Long-term receivables from franchisees are financial assets accounted for using the effective interest rate method. To do this, management estimates the appropriate discount rates and makes assumptions about when the receivables will be collected. Furthermore, the carrying amount of long-term receivables from franchisees is reduced to its estimated realizable value when, after analysis, management believes that the collection of receivables is uncertain. If management's estimates and assumptions are incorrect, the long-term receivables from franchisees may differ, affecting the Corporation's consolidated financial position and consolidated results.

Third party asset-backed commercial paper

Readers are referred to the "Third party asset-backed commercial paper" section of this MD&A for further information on the main estimates made as part of the Corporation's evaluation of asset-backed commercial paper.

Impairment of property and equipment, investment property and intangible assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its property and equipment, investment property and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the specific risks to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determine had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated profit or loss.

The use of different assumptions and estimates, such as the discount rate and expected net cash flows, could result in different fair values and, consequently, different carrying amounts on the consolidated statement of financial position, which would also affect the Corporation's consolidated results.

Useful life of property and equipment, investment property and intangible assets
Property and equipment, investment property and intangible assets with definite lives are recorded at cost. They are depreciated on a straight-line basis over their useful lives, which represents the period during which the Corporation anticipates an asset will contribute to its future cash flows. The use of different assumptions with regard to useful life could result in different carrying amounts for these assets as well as for depreciation and amortization expenses.

Goodwill
Goodwill represents the excess of the acquisition cost of business over the fair value of identifiable net assets and is not amortized. For the impairment testing requirements, goodwill is allocated to each CGU of the Corporation that should benefit from it. The CGUs to which goodwill was allocated are tested for impairment annually or whenever events or changes in circumstances indicate that it might be impaired. An impairment test may be necessary if a return is clearly insufficient in relation to historical or projected operating results, there are material changes in the use of acquired assets or in the Corporation’s strategy, and there are significant negative economic trends. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then, to the other assets of the unit based on a pro-rata of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is never reversed in a subsequent period.

For the purpose of its analysis on impairment, the Corporation uses estimates and assumptions to establish the fair value. These assumptions are described in Note 18 of the Corporation's Consolidated Financial Statements. These assumptions are subject to uncertainties and judgement. The use of different assumptions could result in different carrying amounts and, consequently, affect the Corporation's consolidated statement of financial position and consolidated statement of income.

Defined benefit pension plans
The cost of pensions earned by employees is actuarially determined using the projected benefit method prorated on a service and management's best estimate of expected plan investments performance, salary escalation and retirement age of employees. The main assumptions are quantified in Note 28 of the Corporation Consolidated Financial Statements. The use of different assumptions could result in a different carrying amount, thus affecting the Corporation’s consolidated statement of financial position, the consolidated statement of comprehensive income and the consolidated statement of income.

Income taxes
Current and deferred income taxes are evaluated based on management estimates. Estimation of income taxes is based on an evaluation of the recoverability of the deferred income tax assets based on an assessment of the Corporation’s ability to apply underlying future tax deductions to reduce future taxable profit before they expire. The Corporation maintains provisions for uncertain tax positions that it believes appropriately reflect its risk with respect to uncertain tax matters. These provisions for uncertain tax positions are established using the best estimate of the amount the Corporation expects to pay based on an assessment of all relevant factors. Management also makes other assumptions, including: when the temporary differences are expected to reverse, the substantively enacted tax rates for the fiscal years during which the temporary differences are expected to be reversed and the interpretation of tax law. These estimates and assumptions, if applied differently, could result in different carrying amounts and affect income tax expense in the consolidated statement of income.

CHANGES IN ACCOUNTING POLICIES

TRANSITION TO IFRS

In 2008, the Accounting Standards Board (“AcSB”) confirmed that IFRS would be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The first consolidated annual IFRS financial statements are for the year ended March 3, 2012. Readers are referred to Note 33 of the Corporation's Consolidated Financial Statements for fiscal year 2012 for further information on the transition to IFRS.

STANDARDS AND INTERPRETATIONS ISSUED NOT YET ADOPTED

Income taxes — In December 2010, the IASB issued amendments to IAS 12, Income Taxes, that introduce an exception to the general measurement requirements of IAS 12 in respect to investment properties measured at fair

value. These new amendments will be effective for the fiscal year beginning on or after January 1, 2012. Since the Corporation has elected to account for its investment properties using the cost model, the adoption of these new amendments should not have a significant impact on the Corporation's Consolidated Financial Statements.

Financial instruments — In November 2009, the IASB has issued a new standard, IFRS 9, Financial Instruments, which is the first phase of the IASB's three phase project to replace IAS 39, Financial Instruments: Recognition and Measurement. The standard provides guidance on the classification and measurement of financial liabilities, and requirements for the derecognition of financial assets and financial liabilities. IFRS 9 will be applied prospectively with transitional arrangements depending on the date of application. This new standard will be effective for fiscal years beginning on or after January 1, 2015, but early adoption is permitted. The Corporation is currently evaluating the impact of adopting IFRS 9 on its Consolidated Financial Statements.

Consolidated financial statements, joint arrangements, disclosure of interests in other entities — In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 will replace SIC-12, Consolidation-Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11 will replace IAS 31, Interest in Joint Venture, and SIC-13, Jointly Controlled Entities - Non Monetary Contributions by Venturers. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, Investments in Associates and Joint Ventures, has been amended to correspond to guidance provided in IFRS 10 and IFRS 11.

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 will be effective for fiscal years beginning on or after January 1, 2013. Early adoption is permitted, so long as they are all adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Corporation is currently evaluating the impact of adopting these new standards and amendments on its Consolidated Financial Statements.

Fair value measurement — In May 2011, the IASB issued IFRS 13, Fair Value Measurement. IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This new standard will be effective for fiscal years beginning on or after January 1, 2013, but early adoption is permitted. The Corporation is currently evaluating the impact of adopting IFRS 13 on its Consolidated Financial Statements.

Other comprehensive income presentation — In June 2011, the IASB amended IAS 1, Presentation of Financial Statements, providing guidance on items contained in other comprehensive income and their classification within other comprehensive income. These amendments to IAS 1 must be applied retrospectively for fiscal years beginning on or after July 1, 2012. The Corporation is currently evaluating the impact of these amendments to IAS 1 on its Consolidated Financial Statements.

Employee Benefits — In June 2011, the IASB amended IAS 19, Employee Benefits, which applies to defined benefit plans. The amended version of the standard contains multiple modifications, including the elimination of the corridor approach, which allowed deferring part of actuarial gains and losses, as well as enhanced guidance on measurement of plan assets and defined benefit obligations and the introduction of enhanced disclosures for defined

benefit plans. These amendments are effective for fiscal years beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of these amendments to IAS 19 on its Consolidated Financial Statements.

RISKS AND UNCERTAINTIES

The section "Forward looking statements" applies to this section.

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. Readers are referred Note 26 of the Corporation's Financial Statements for further information on the Guarantees and contingencies.

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 "Overall performance for fiscal years 2012 and 2011" section of this MD&A for more information.

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 399 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 availability of products 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 planning of procurements 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.

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 An 8 year collective agreement was signed in December 2011 with our Longueuil warehouse employees.

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 accounting standards 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 234 million shares of 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 significant debts. 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 Rule 144 under the Securities Act of 1933. These shares are subject to a Stockholder Agreement, available to readers using the following link to the www.sedar.com website. Readers are referred to Note 34 of the Corporation's Consolidated Financial Statements for fiscal year 2012.

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 March 3, 2012, 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 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 March 3, 2012, 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 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 during fiscal year 2012.

STRATEGIES AND OUTLOOK

The section "Forward looking statements" applies to this section.

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 revenue 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 our integration in generic drugs with Pro Doc will have a positive impact on the consolidated margins.

FORWARD LOOKING STATEMENTS

This 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 the Corporation operate, the intensity of competitive activity in the industry in which the Corporation operates, the supplier and brand reputations, the Corporation's equity interest in Rite Aid Corporation ("Rite Aid"), the Corporation's 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 the Corporation's control.

These and other factors could cause the Corporation's 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 also in the "Critical accounting estimates", "Risks and uncertainties" and "Strategies and outlook" sections of this MD&A. The Corporation expressly disclaims 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.

May 2, 2012

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 International Financial Reporting Standards. 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 Corporation’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

May 2, 2012

INDEPENDENT AUDITOR'S REPORT

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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 statements of financial position as at March 3, 2012, February 26, 2011, and February 28, 2010, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended March 3, 2012 and February 26, 2011, 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 International Financial Reporting Standards, 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 March 3, 2012, February 26, 2011, and February 28, 2010, and its financial performance and its cash flows for the years ended March 3, 2012 and February 26, 2011 in accordance with International Financial Reporting Standards.

/s/ Deloitte & Touche LLP[1]

May 2, 2012
Montréal (Québec)

[1] Chartered accountant auditor permit no. 19705

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of income

For the fiscal years ended March 3, 2012 and February 26, 2011	2012	2011
(in millions of Canadian dollars, unless otherwise noted)	**$**	$
	(Note 2b)	(Notes 2b & 33)
Sales	**2,463.2**	2,348.7
Other revenues (Note 5)	**269.9**	264.1
	2,733.1	2,612.8
Operating expenses		
Cost of sales	**2,184.3**	2,091.6
General and operating expenses (Note 6)	**237.6**	230.7
Operating income before depreciation and amortization	**311.2**	290.5
Depreciation and amortization (Note 7)	**30.4**	28.9
Operating income	**280.8**	261.6
Financing expenses (Note 8)	**1.0**	1.1
Profit before the following items	**279.8**	260.5
Gains on sales of investment in associate Rite Aid (Note 14)	**22.0**	-
Profit before income taxes	**301.8**	260.5
Income taxes (Note 9)	**71.8**	77.9
Net profit	**230.0**	182.6
Basic and diluted earnings per share, in dollars (Note 10)	**1.03**	0.78

Consolidated statements of comprehensive income

For the fiscal years ended March 3, 2012 and February 26, 2011	2012	2011
(in millions of Canadian dollars)	**$**	$
	(Note 2b)	(Notes 2b & 33)
Net profit	**230.0**	182.6
Other comprehensive income		
Actuarial losses on defined benefit pension plans (Note 28)	**(3.3)**	(0.1)
Pension plan asset limitation on defined benefit pension plans (Note 28)	**1.1**	0.1
Income taxes on the above items	**0.6**	-
	(1.6)	-
Total comprehensive income	**228.4**	182.6

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

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of changes in equity

For the fiscal years ended March 3, 2012 and February 26, 2011

(in millions of Canadian dollars)

	Capital stock	Treasury stock	Contributed surplus	Retained earnings (deficit)	Total equity
	$	$	$	$	$
Balance at February 28, 2010 [1]	650.8	-	0.6	(122.3)	529.1
Net profit	-	-	-	182.6	182.6
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	182.6	182.6
Redemption of capital stock (Note 23)	(36.6)	-	-	(26.4)	(63.0)
Dividends (Note 23)	-	-	-	(51.4)	(51.4)
Share-based compensation cost (Note 25)	-	-	0.8	-	0.8
Options exercised (Note 25)	0.2	-	-	-	0.2
Balance at February 26, 2011 [1]	614.4	-	1.4	(17.5)	598.3
Net profit	**-**	**-**	**-**	**230.0**	**230.0**
Other comprehensive income	**-**	**-**	**-**	**(1.6)**	**(1.6)**
Total comprehensive income	**-**	**-**	**-**	**228.4**	**228.4**
Redemption of capital stock (Note 23)	**(55.5)**	**(1.0)**	**-**	**(68.6)**	**(125.1)**
Dividends (Note 23)	**-**	**-**	**-**	**(53.8)**	**(53.8)**
Share-based compensation cost (Note 25)	**-**	**-**	**0.6**	**0.1**	**0.7**
Options exercised (Note 25)	**0.8**	**-**	**(0.1)**	**-**	**0.7**
Balance at March 3, 2012	**559.7**	**(1.0)**	**1.9**	**88.6**	**649.2**

[1] Refer to Note 33 for an explanation of the transition to International Financial Reporting Standards.

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

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of financial position

(in millions of Canadian dollars)	**As at March 3, 2012**	As at February 26, 2011	As at February 28, 2010
	$	$	$
		(Notes 33)	(Notes 33)
Current assets			
Trade and other receivables	**206.5**	193.5	192.7
Inventories (Note 11)	**166.2**	173.2	163.8
Income taxes recoverable	**0.2**	-	-
Prepaid expenses	**12.9**	6.9	5.0
	385.8	373.6	361.5
Non-current assets			
Long-term receivables from franchisees (Note 12)	**33.4**	34.7	33.3
Other financial assets (Note 13)	**19.0**	23.0	22.7
Investment in associates (Note 14)	**6.9**	7.6	7.9
Property and equipment (Note 15)	**361.1**	362.4	341.3
Investment property (Note 16)	**20.5**	20.5	24.0
Intangible assets (Note 17)	**186.9**	174.4	137.7
Goodwill (Note 18)	**36.0**	36.0	36.0
Deferred tax (Note 9)	**12.6**	17.4	21.2
Other long-term assets (Note 19)	**10.6**	10.1	10.2
Total assets	**1,072.8**	1,059.7	995.8
Current liabilities			
Bank overdraft	**5.0**	16.5	13.3
Trade and other payables (Note 20)	**230.6**	208.7	193.8
Income taxes payable	**23.2**	35.6	41.1
Short term portion of long-term debt (Note 21)	**149.9**	-	-
	408.7	260.8	248.2
Non-current liabilities			
Long-term debt (Note 21)	**-**	184.8	199.9
Deferred tax (Note 9)	**1.0**	1.4	1.3
Other long-term liabilities (Note 22)	**13.9**	14.4	17.3
Total liabilities	**423.6**	461.4	466.7
*Guarantees, contingencies and commitments (*Notes 26 and 27)			
Equity			
Capital stock (Note 23)	**559.7**	614.4	650.8
Treasury stock (Note 25)	**(1.0)**	-	-
Contributed surplus	**1.9**	1.4	0.6
Retained earnings (deficit)	**88.6**	(17.5)	(122.3)
Total equity	**649.2**	598.3	529.1
Total liabilities and equity	**1,072.8**	1,059.7	995.8

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

Approved by the Board

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

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

THE JEAN COUTU GROUP (PJC) INC.

Consolidated statements of cash flows

For the fiscal years ended March 3, 2012 and February 26, 2011	2012	2011
(in millions of Canadian dollars)	**$**	$
	(Note 2b)	(Notes 2b & 33)
Operating activities		
Net profit	**230.0**	182.6
Adjustments for:		
Depreciation and amortization	**30.4**	28.9
Change in fair value of other financial assets (Note 13)	**(1.9)**	(1.0)
Gains on sales of investment in associate Rite Aid	**(22.0)**	-
Interest on long-term debt	**2.8**	2.6
Income taxes	**71.8**	77.9
Others	**3.8**	4.7
	314.9	295.7
Net changes in non-cash asset and liability items (Note 31)	**16.7**	(0.2)
Interest paid	**(2.8)**	(2.5)
Income taxes paid	**(83.8)**	(79.5)
Cash flow related to operating activities	**245.0**	213.5
Investing activities		
Proceeds from disposal of investment in associate Rite Aid	**22.0**	-
Purchase of property and equipment	**(24.9)**	(43.5)
Proceeds from disposal of property and equipment	**2.2**	2.1
Purchase of investment property	**(0.3)**	(0.4)
Proceeds from disposal of investment property	**2.7**	3.9
Net change in long-term receivables from franchisees	**(3.4)**	(6.8)
Receipts from other financial assets (Note 13)	**5.9**	0.6
Purchase of intangible assets	**(22.7)**	(45.5)
Others	**1.6**	-
Cash flow related to investing activities	**(16.9)**	(89.6)
Financing activities		
Net change in revolving credit facility	**(34.9)**	(15.1)
Financing fees	**(1.3)**	-
Issuance of capital stock	**0.7**	0.2
Redemption of capital stock and treasury stock	**(127.3)**	(60.8)
Dividends paid	**(53.8)**	(51.4)
Cash flow related to financing activities	**(216.6)**	(127.1)
Net change in cash and cash equivalents	**11.5**	(3.2)
Bank overdraft, beginning of year	**(16.5)**	(13.3)
Bank overdraft, end of year	**(5.0)**	(16.5)

The accompanying notes are an integral part of these consolidated financial statements. See supplemental cash flow information in Note 31.

1. General information

The Jean Coutu Group (PJC) Inc. (the "Parent Corporation") is governed by the Business Corporations Act (Québec). The address of the parent corporation's registered office is 530, Bériault Street, Longueuil, Québec. The parent corporation and its subsidiaries ("the Corporation") operate a franchisees network in Canada under the banners of "PJC Jean Coutu", "PJC Clinique", "PJC Jean Coutu Santé" and "PJC Jean Coutu Santé Beauté". The Corporation also operates two distribution centres and provides various services to 399 franchised stores as at March 3, 2012 (February 26, 2011 - 389 and February 28, 2010 - 370). The franchised store network retails pharmaceutical, parapharmaceutical and other products. The franchisees manage their store and are responsible for merchandising and financing their inventory. In accordance with SIC-12, Consolidation-Special Purpose Entities, the franchised stores' financial results are not included in the Corporation's consolidated financial statements. 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 an interest of 26.1% in Rite Aid Corporation ("Rite Aid"), a national chain of drugstores in the United States with approximately 4,700 stores in 31 states and the District of Columbia.

2. Basis of preparation

a) Statement of compliance

For all years up to and including the year ended February 26, 2011, the Corporation prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). As a consequence of the replacement of Canadian GAAP by the International Financial Reporting Standards ("IFRS") for the Canadian publicly accountable enterprises for years beginning on or after January 1, 2011, these consolidated financial statements represent the first annual consolidated financial statements of the Corporation prepared in compliance with IFRS as issued by the International Accounting Standards Board ("IASB"). The Corporation adopted IFRS in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), as discussed in note 33. The comparative figures were restated to reflect IFRS.

The consolidated financial statements were authorised for issue by the Board of Directors on May 2, 2012.

b) Fiscal year

Fiscal year end of the Corporation is the saturday closest to February 29 or March 1 and usually comprises 52 weeks in duration but includes a 53rd week every 5 to 6 years. The fiscal year ended March 3, 2012 included 53 weeks while the fiscal years ended February 26, 2011 and February 27, 2010 included 52 weeks.

2. Basis of preparation *(continued)*

c) Measurement basis

The consolidated financial statements have been prepared using the historical cost basis, except for certain financial instruments measured at fair value and the defined benefit pension obligations based upon an actuarial valuation.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make certain judgments, estimates and assumptions, which 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimates are revised and in any future period affected.

Critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are the identification of components of property and equipment and investment properties, the classification of property and equipment with a dual-use and the classification of banner development costs.

Assumptions and estimation uncertainties that have a significant risk that could result in material adjustment within the next financial year are: impairment of inventories, property and equipment, investment property; intangible assets and goodwill; useful lives of property and equipment, investment properties and banner development costs; tax provisions; determination of tax rates used for measuring deferred taxes; assumptions underlying the actuarial determination of defined benefit pension obligations; fair value of financial instruments; guarantees and contingencies.

3. Significant accounting policies

a) Basis of consolidation

Subsidiaries are entities controlled by the Corporation. The Corporation has control when its has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Corporation's consolidated financial statements from the date that control starts until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Corporation.

3. Significant accounting policies *(continued)*

a) Basis of consolidation (continued)

The significant subsidiaries of the Corporation, all wholly-owned, are as follows:

- Pro Doc Ltd
- Centre d'information Rx Ltd

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

Associates are entities in which the Corporation has a significant influence but no control over financial and operating policies. Significant influence is presumed to exist when a corporation holds between 20 and 50 percent of the voting power of another entity.

When the Corporation transacts with an associate, profits and losses are eliminated to the extent of the Corporation's interest in the associate.

Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Corporation's interest in the investee. Unrealized losses arising from these transactions are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency translation

The individual financial statements of each individual entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). This currency is the Canadian dollar for Canadian operations and corporate activities and the US dollar for its associate Rite Aid.

For the purpose of the consolidated financial statements, the results and financial position of each individual entity are expressed in Canadian dollars, which is the functional currency of the parent corporation and the presentation currency for the consolidated financial statements. The assets and liabilities of the Corporation's foreign operations are expressed in Canadian dollars using the exchange rates prevailing at the end of the reporting period. Revenue and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in the foreign currency translation reserve in other comprehensive income and accumulated in equity.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated. All exchange gains and losses are included in the consolidated statements of income, unless subject to hedge accounting.

3. Significant accounting policies *(continued)*

c) Revenue recognition

Revenue is comprised primarily 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 recovery of the consideration is probable; 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 recognized 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 (Note 3 q).

Revenues are recognized when reasonable assurance exists regarding collectability.

d) 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 sales and related inventory when recognized in the Corporation's consolidated statement of income and financial position. 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.

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 in each agreement. Deferred revenues are recognized in trade and other payables and in other long-term liabilities.

3. Significant accounting policies *(continued)*

e) Leases

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

i) The Corporation as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the lease in other revenues. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Corporation leases and subleases properties with predetermined fixed escalation of the minimum rent that are explained in the component other long-term assets (Note 3 q).

ii) The Corporation as lessee

Payments made under operating leases are recognized in the consolidated profit or loss on a straight-line basis over the term of the lease. Lease incentives received and predetermined fixed escalation of the minimum rent are recognized as an integral part of the total lease expense, over the term of the lease. Lease expense is recognized in general and operating expenses. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability.

The Corporation leases properties with predetermined fixed escalations of the minimum rent that are explained in the component other long-term liabilities (Note 3 t).

f) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the consolidated profit or loss except to the extent that it arises from the initial accounting for a business combination, or items recognized directly in equity or in other comprehensive income. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Significant accounting policies *(continued)*

f) Income taxes *(continued)*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in a foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

g) Earnings per share

Basic and diluted earnings per share have been determined by dividing the consolidated profit or loss allocated to shareholders for the period by the basic and diluted weighted average number of ordinary equity holders of the Corporation outstanding during the period, respectively.

3. Significant accounting policies *(continued)*

g) Earnings per share *(continued)*

Diluted earnings per share is determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential shares generated by the stock options granted to employees. Antidilutive options are not included in the calculation of diluted earnings per share.

h) Financial instruments

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

Assets/Liabilities	Category	Subsequent Measurement
Trade and other receivables	Loans and receivables	Amortized cost
Long-term receivables from franchisees	Loans and receivables	Amortized cost
Third party asset-backed commercial paper	Financial assets at fair value through profit or loss	Fair value
Options to repay drawdowns of credit facilities with restructured notes	Financial assets at fair value through profit or loss	Fair value
Bank overdraft	Other financial liabilities	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

i) Non-derivative financial assets

The Corporation has the following non-derivative financial assets: trade and other receivables, long-term receivables from franchisees and certain third party asset-backed commercial paper.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated profit or loss. Transaction costs, if any, related to acquisition or issuance of financial instruments classified at fair value through profit or loss, are recognized in the consolidated profit or loss. The third party asset-backed commercial paper has been designated as a financial asset at fair value through profit or loss.

3. Significant accounting policies *(continued)*

h) Financial instruments *(continued)*

i) Non-derivative financial assets (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Recognition and derecognition of financial assets

The Corporation initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

ii) Non-derivative financial liabilities

The Corporation has the following non-derivative financial liabilities: bank overdraft, trade and other payables and long-term debt.

Financial liabilities at fair value through profit or loss

A financial liability is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in the consolidated profit or loss. Transaction costs, if any, related to acquisition or issuance of financial instruments classified at fair value through profit or loss, are recognized in the consolidated profit or loss.

Other financial liabilities

Other financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Recognition or derecognition of financial liabilities

The Corporation initially recognizes debt securities issued on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

3. Significant accounting policies *(continued)*

h) Financial instruments (continued)

ii) Non-derivative financial liabilities (continued)

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

iii) Offset

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

iv) Derivative financial instruments

The Corporation has the following derivative financial instruments: certain third party asset-backed commercial paper and the options to repay drawdowns of credit facilities with restructured notes.

All derivative financial instruments are carried at fair value in the consolidated statement of financial position, including those derivatives that are embedded in other contracts but are not closely related to the host contract. Derivative financial instruments, except for derivatives that are designated and effective hedging instruments, are financial assets or liabilities classified at fair value through profit or loss.

The Corporation does not use derivative financial instruments for speculative purposes. Derivatives that are economic hedges are recognized at fair value with the changes in fair value recorded in the consolidated statement of income. The Corporation holds no derivatives that qualify for hedge accounting.

v) Impairment

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include payment default or delinquency by a debtor, restructuring of an amount due to the Corporation with terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter in significant financial distress of the issuer or the debtor, or the disappearance of an active market for a security.

3. Significant accounting policies *(continued)*

h) Financial instruments *(continued)*

v) Impairment (continued)

The Corporation considers evidence of impairment for receivables at a specific asset level. All individual receivables are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the consolidated profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the consolidated profit or loss.

vi) Fair value hierarchy

The Corporation analysed its financial instruments that are measured subsequent to initial recognition at fair value and grouped them into levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the specific asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

i) 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 in the Corporation's consolidated statement of financial position.

j) Inventories

Inventories are composed of finished goods available for sale. Inventories are measured at the lower of cost and net realizable value, the cost being determined using the first in, first out method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

3. Significant accounting policies *(continued)*

k) 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 periodically analyzes 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. If the amount of the impairment loss decreases during a subsequent period, it is reversed. The losses and reversals in value are recognized in the consolidated statement of income.

l) Investments in associates

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without having control or joint control over those policies.

Investments in associates are accounted for using the equity method. Under this method, the investment is initially recorded at cost and the Corporation's consolidated financial statements include the Corporation's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Corporation, from the date that significant influence starts until the date that significant influence ceases.

In the case of the investment in Rite Aid, which was acquired by the simultaneous sale and retention of an interest in its former US operations of the Corporation, certain adjustments are made to the share of loss. The Corporation share of Rite Aid's loss is adjusted to reflect the amortization of the fair value adjustments related to the Corporation 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 retained interest in its former US Operations.

When the Corporation's cumulated share of losses exceeds its interest in the associate, the carrying amount of that interest is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Corporation has an obligation or has made payments on behalf of its associate.

Any excess of the cost of acquisition over the Corporation's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill as part of the carrying value of the investment.

3. Significant accounting policies *(continued)*

l) Investments in associates *(continued)*

Management periodically analyses each investment to determine if there is objective evidence of an impairment. In the case of an impairement, the investment is written down to its recoverable amount.

m) Property and equipment

i) Classification

General statement

Property and equipment are used in the production or supply of goods or services or for administrative purposes.

Franchisee-occupied buildings

Franchisee-occupied buildings did not meet the criteria to be classified as investment property as the Corporation generates significant cash flows other than rental from franchisees and provides them with a wide range of services not deemed ancillary. As a result, the Corporation accounts for the franchisee-occupied buildings as property and equipment.

Dual-use properties

Dual-use properties are properties occupied by a franchisee and rented to a third party. As the Corporation concluded that all of the dual-use properties did not meet the criteria to be split into own-use and investment property for accounting purposes, in these cases the entire property will be accounted for as property and equipment since the portion held for its own uses (i.e. rented to a franchisee) always represents more than an insignificant portion of the property.

Change of use

When the use of a property changes from franchisee-occupied to investment property or from investment property to franchisee-occupied, the property is reclassified at its carrying amount in its new category.

3. Significant accounting policies *(continued)*

m) Property and equipment *(continued)*

ii) Recognition

Land is accounted for at cost. Other property and equipment are accounted for at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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 methods.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation methods, useful lives and residual values are reviewed at each annual date and adjusted if necessary.

The estimated useful lives are as follows:

Property and equipment:	**Terms**
Buildings	15 to 40 years
Buildings held for leasing	10 to 40 years
Leasehold improvements	Term of the lease or useful life, whichever is shorter
Equipment	3 to 5 years

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will benefit the Corporation, and if its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the consolidated profit or loss as incurred.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of this item, and are recognized net in general and operating expenses.

3. Significant accounting policies *(continued)*

n) Investment property

i) Classification

General statement

Investment property is property held either to earn rental income or for capital appreciation or for both.

Properties rented to third parties, other than franchisees

Properties rented to third parties, other than franchisees meet the criteria to be classified as investment property as the Corporation holds these properties to earn rental income and as a defensive measure against competitors.

Change of use

When the use of a property changes from franchisee-occupied to investment property or from investment property to franchisee-occupied, the property is reclassified at its carrying amount in its new category.

ii) Recognition

Land is accounted for at cost. Investment property is accounted for at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Construction in progress is not amortized until the asset is ready for its intended use. Amortization of other investment property is based on their estimated useful lives using the straight-line method.

When parts of an item of investment property have different useful lives, they are accounted for as separate items (major components) of investment property.

Depreciation methods, useful lives and residual values are reviewed at each annual date and adjusted if necessary.

The estimated useful lives are as follows:

Investment property:	**Terms**
Buildings held for leasing	10 to 40 years

3. Significant accounting policies *(continued)*

n) Investment property *(continued)*

ii) Recognition (continued)

The cost of replacing a part of an item of investment property is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will benefit to the Corporation, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of investment property are recognized in the consolidated profit or loss as incurred.

Gains and losses on disposal of an item of investment property are determined by comparing the proceeds from disposal with the carrying amount of this item, and are recognized net in general and operating expense.

o) Intangible assets

Intangible assets are banner development costs that are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in the consolidated profit or loss on a straight-line basis over the estimated useful life of intangible assets, which is 25 years. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with any changes in estimate being accounted for on a prospective basis.

p) Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Goodwill is not amortized.

In respect of investments in associates, the carrying amount of goodwill is included in the carrying amount of the investment. The goodwill is assessed for impairment as part of that investment.

q) Other long-term assets

Other long-term assets are mainly rent escalation assets. The Corporation leases and subleases properties with predetermined fixed escalations 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.

3. Significant accounting policies *(continued)*

r) Impairment of property and equipment, investment property, intangible assets and goodwill

i) Property and equipment, investment property and intangible assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its property and equipment, investment property and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the specific risks to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the consolidated profit or loss.

ii) Goodwill

Goodwill is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Corporation's CGUs expected to benefit from it. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit based on a pro-rata of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is never reversed in a subsequent period.

3. Significant accounting policies *(continued)*

s) Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

t) Other long-term liabilities

Other long-term liabilities are mainly defined benefit pension obligations (Note 28) and deferred lease obligations. The Corporation leases premises and recognizes minimum rent starting when possession of the property is taken from the landlord. Rental expenses are recognized in the consolidated profit or loss on a straight-line basis over the term of the lease. Leases incentives granted and predetermined fixed escalations of the minimum rent are recognized as an integral part of the total general and operating expenses, over the term of the lease.

u) Capital stock

i) Shares

Shares of the parent corporation are classified as equity. Incremental costs directly attributable to the issuance of shares and stock options are recognized as a deduction from equity, net of any tax effects.

ii) Redemption of capital stock

The Corporation, from time to time, may repurchase its common shares under a normal course issuer bid. When common shares are repurchased, the carrying amount of the repurchased shares is deducted from the capital stock. The excess of the purchase price over the carrying amount of the repurchased shares is recognized in the retained earnings. Any repurchased common shares are cancelled.

3. Significant accounting policies *(continued)*

v) Share-based payments

i) Stock option et performance share plans

The Corporation has a stock option plan and performance share plan which are described in Note 25. The performance share plan was implemented during the fiscal year ended March 3, 2012. The share-based payments expense is accounted under fair value method. In accordance with this method, the stock options and the performance shares are measured at the fair value of the equity instruments at the grant date. They are expensed and credited to contributed surplus during the vesting period. With regard to the stock option plan, these credits are reclassified to capital stock on exercise of stock options. Regarding the performance share plan, any difference between the amount credited to contributed surplus in respect of the shared-based payments expense and the amount paid by the Corporation to acquire the shares that will be used in settlement of performance shares is reclassified to retained earnings upon settlement of performance shares.

An estimate is required for the expected number of equity instrument expected to vest and the estimate is revised if subsequent information indicates that the actual forfeitures may be different from the estimated number. The effect of any change in the number of stock options or performance shares is recognized in the period during which the estimate is revised. The grant qualifies as a grant of equity instruments.

The policy described above is applied to all equity-settled share-based payments that were granted after November 7, 2002 and vested after February 28, 2010. The Corporation's stock option plan and the performance share plan are the only plans settled in equity.

ii) Share appreciation rights plan

The Corporation has a share appreciation rights plan. The fair value of the amounts payable to executives in respect of share appreciation rights, which are settled in cash, is recognized in employee benefits expense with a corresponding increase recorded in trade and other payables, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognized in employee benefits expense in the consolidated profit or loss for the period.

iii) Share unit plan

The Corporation also has a share unit plan, which is a cash-settled plan, for the members of the Board of Directors. A liability is recognized for the services acquired. This liability is initially recorded at fair value in trade and other payables with a corresponding expense recognized in employee benefits expenses. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized as an employee benefits expense in the consolidated profit or loss for the period.

3. Significant accounting policies *(continued)*

w) Defined benefit pension plans

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

The registered pension plans are funded as required by the applicable laws and the supplemental plan is partly funded through retirement compensation arrangements ("RCA"). The amount of contributions required to fund the registered pension plans is determined by an actuarial valuation.

The present value of the defined benefit obligation and the related current service costs and, past service costs are measured separately for each plan, using the projected unit credit method. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The defined benefit obligation recognized in the consolidated statement of financial position under other long-term liabilities represents the present value of the defined benefit obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the total of the unrecognized past service cost, the present value of available refunds and reductions in future contributions to the plan.

The Corporation recognizes all actuarial gains and losses arising from defined benefit plans directly in the retained earnings, through the other comprehensive income.

No other post-retirement benefits are provided to employees.

x) Defined contribution pension plans

Contributions to defined contribution retirement benefit plans are recognized in employee benefits expense when employees have rendered the services entitling them to the contributions.

3. Significant accounting policies *(continued)*

y) Segment reporting

An operating segment is a component in the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. The Corporation's President and Chief Executive Officer regularly review all operating segments' operating results to decide which resources should be allocated to the segment and to assess its performance, for which specific financial information is available.

The Corporation has three reportable operating segments: franchising, generic drugs and an investment in Rite Aid, an investment in associate, 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, that receives its revenues from the sale of generic drugs to wholesalers and pharmacists. The investment in Rite Aid is accounted for using the equity method as described in Note 14.

The accounting policies that are used for the operating segment are the same as the one described in this note. The Corporation analyzes the performance of its franchising and generic drugs segments based on its operating income before depreciation and amortization. This is the measure reported to the President and Chief Executive Officer for the purposes of resource allocation and assessment of segment performance. The Corporation records intersegment operations at the amount agreed between the parties.

The Corporation has two geographic areas that correspond to franchising and generic drugs for Canada and the investment in Rite Aid for the United States.

4. Changes in accounting policies

Fiscal year 2012

Readers are referred to Note 33 for explanations of the transition to IFRS.

4. Changes in accounting policies *(continued)*

Standards and Interpretations issued not yet adopted

a) Income taxes

In December 2010, the IASB issued amendments to IAS 12, Income Taxes, that introduce an exception to the general measurement requirements of IAS 12 in respect to investment properties measured at fair value. These new amendments will be effective for the fiscal year beginning on or after January 1, 2012. Since the Corporation has elected to account for its investment properties using the cost model, the adoption of these new amendments should not have a significant impact on the Corporation's consolidated financial statements.

b) Financial instruments

In November 2009, the IASB has issued a new standard, IFRS 9, Financial Instruments, which is the first phase of the IASB's three phase project to replace IAS 39, Financial Instruments: Recognition and Measurement. The standard provides guidance on the classification and measurement of financial liabilities, and requirements for the derecognition of financial assets and financial liabilities. IFRS 9 will be applied prospectively with transitional arrangements depending on the date of application. This new standard will be effective for fiscal years beginning on or after January 1, 2015, but early adoption is permitted. The Corporation is currently evaluating the impact of adopting IFRS 9 on its consolidated financial statements.

c) Consolidated financial statements, joint arrangements, disclosure of interests in other entities

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, and IFRS 12, Disclosure of Interests in Other Entities. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 will replace SIC-12, Consolidation-Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11 will replace IAS 31, Interest in Joint Venture, and SIC-13, Jointly Controlled Entities - Non Monetary Contributions by Venturers. Through an assessment of the rights and obligations in an arrangement, IFRS 11 establishes principles to determine the type of joint arrangement and guidance for financial reporting activities required by the entities that have an interest in arrangements that are controlled jointly.

As a result of the issuance of IFRS 10 and IFRS 11, IAS 28, Investments in Associates and Joint Ventures, has been amended to correspond to guidance provided in IFRS 10 and IFRS 11.

4. Changes in accounting policies *(continued)*

Standards and Interpretations issued not yet adopted *(continued)*

c) Consolidated financial statements, joint arrangements, disclosure of interests in other entities *(continued)*

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 10, 11 and 12, and the amendments to IAS 27 and 28 will be effective for fiscal years beginning on or after January 1, 2013. Early adoption is permitted, so long as they are all adopted at the same time. However, entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12. The Corporation is currently evaluating the impact of adopting these new standards and amendments on its consolidated financial statements.

d) Fair value measurement

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This new standard will be effective for fiscal years beginning on or after January 1, 2013, but early adoption is permitted. The Corporation is currently evaluating the impact of adopting IFRS 13 on its consolidated financial statements.

e) Other comprehensive income presentation

In June 2011, the IASB amended IAS 1, Presentation of Financial Statements, providing guidance on items contained in other comprehensive income and their classification within other comprehensive income. These amendments to IAS 1 must be applied retrospectively for fiscal years beginning on or after July 1, 2012. The Corporation is currently evaluating the impact of these amendments to IAS 1 on its consolidated financial statements.

4. Changes in accounting policies *(continued)*

Standards and Interpretations issued not yet adopted *(continued)*

f) Employee Benefits

In June 2011, the IASB amended IAS 19, Employee Benefits, which applies to defined benefit plans. The amended version of the standard contains multiple modifications, including the elimination of the corridor approach, which allowed deferring part of actuarial gains and losses, as well as enhanced guidance on measurement of plan assets and defined benefit obligations and the introduction of enhanced disclosures for defined benefit plans. These amendments are effective for fiscal years beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of these amendments to IAS 19 on its consolidated financial statements.

g) Financial Instruments - Disclosures

In December 2011, the IASB amended IFRS 7, Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7), to provide new disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a corporation's financial position. These amendments are effective for fiscal years beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of these amendments to IAS 19 on its consolidated financial statements.

5. Other revenues

	2012	2011
	$	$
Royalties	**120.6**	121.2
Rent	**86.0**	80.9
Sundry	**63.3**	62.0
	269.9	264.1

6. General and operating expenses

	2012	2011
	$	$
Wages, salaries and fringe benefits	**91.3**	87.4
Operating leases expenses	**52.4**	50.4
Other goods and services [1]	**93.9**	92.9
	237.6	230.7

[1] Other goods and services include advertising costs, repair and maintenance of property and equipment, services to franchisees, freights charges, allowances for credit losses, professional fees, office supplies, utilities and expenses for taxes and licenses.

7. Depreciation and amortization

	2012	2011
	$	$
Property and equipment	**19.6**	19.3
Investment property	**0.6**	0.8
Intangible assets	**10.2**	8.8
	30.4	28.9

8. Financing expenses

	2012	2011
	$	$
Interest on long-term debt	**2.8**	2.6
Foreign exchange losses (gains)	**0.2**	(0.2)
Interest revenues on loans and receivables accounted for under the effective interest rate method	**(0.5)**	(0.6)
Change in fair value of other financial assets (Note 13)	**(1.9)**	(1.0)
Interest expense on defined benefit pension obligations (Note 28)	**1.2**	1.1
Expected return on pension plan assets (Note 28)	**(0.9)**	(0.7)
Other financing expenses (revenues), net	**0.1**	(0.1)
	1.0	1.1

9. Income taxes

a) Income tax expense

The income taxes are as follows:

	2012	2011
	$	$
Current income taxes		
Current fiscal year	**74.7**	73.9
Reversal of tax provisions	**(8.1)**	-
Adjustments for prior fiscal years	**0.2**	0.1
	66.8	74.0
Deferred income taxes		
Origination and reversal of temporary differences	**4.8**	3.7
Adjustments for prior fiscal years	**0.2**	0.2
	5.0	3.9
	71.8	77.9

The Corporation's income tax expense differs from the amounts that would be computed using the combined statutory tax rates.

	2012	2011
	$	$
Income taxes at combined statutory tax rate of 28.15% (29.65% in 2011)	**85.0**	77.2
Tax increase (decrease) resulting from other elements:		
Use of unrecognized tax attributes against gains on sales of investment in associate Rite Aid	**(6.2)**	-
Reversal of tax provisions	**(8.1)**	-
Other	**1.1**	0.7
	71.8	77.9

The decrease in the combined statutory tax rate is mainly due to the reduction of Federal statutory income tax rate.

During fiscal year 2012, the Corporation reviewed its tax provisions according to the progress of the processes of tax audits and oppositions to tax audits currently underway. Consequently, an amount of $8.1 million was reversed to the income of fiscal year 2012.

9. Income taxes *(continued)*

b) Unrecognized deferred tax assets

As at March 3, 2012, $1,420.9 million (February 26, 2011 - $1,476.1 million and February 28, 2010 - $1,477.5 million) of deductible temporary differences have not been recognized as deferred tax assets. Those deferred tax assets have not been recognized because it is not probable that future taxable profit will be available against which the Corporation can utilize the benefits.

c) Deferred tax balances

Future income tax asset and liability are as follows:

	As at February 28, 2010	Recognized in the statement of income	As at February 26, 2011	**Recognized in the statement of income**	**Recognized in the statement of comprehensive income**	**As at March 3, 2012**
	$	$	$	**$**	**$**	**$**
Deferred income tax asset:						
Long-term receivables from franchisees	1.0	(0.3)	0.7	**(0.2)**	**-**	**0.5**
Property and equipment and investment property	4.1	(0.7)	3.4	**(0.2)**	**-**	**3.2**
Other long-term liabilities	1.6	(0.3)	1.3	**(0.3)**	**0.6**	**1.6**
Penalty on senior notes reimbursements	13.3	(3.8)	9.5	**(3.6)**	**-**	**5.9**
Intersegment eliminations included in deferred taxes	5.0	1.9	6.9	**(0.7)**	**-**	**6.2**
Total deferred income tax asset	25.0	(3.2)	21.8	**(5.0)**	**0.6**	**17.4**
Deferred income tax liability:						
Property and equipment and investment property	1.3	0.1	1.4	**(0.4)**	**-**	**1.0**
Intangible assets	2.7	0.7	3.4	**0.5**	**-**	**3.9**
Other long-term assets	1.1	(0.1)	1.0	**(0.1)**	**-**	**0.9**
	5.1	0.7	5.8	**-**	**-**	**5.8**
Deferred income tax asset, net	19.9	(3.9)	16.0	**(5.0)**	**0.6**	**11.6**

9. Income taxes *(continued)*

c) Deferred tax balances *(continued)*

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	$
Deferred tax asset - non current	**12.6**	17.4	21.2
Deferred tax liability - non current	**(1.0)**	(1.4)	(1.3)
	11.6	16.0	19.9

10. 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 are established as follows:

	2012	2011
Net profit	**$ 230.0**	$ 182.6
Weighted average number of shares (in millions) used to compute basic earnings per share	**224.0**	233.6
Basic earnings per share, in dollars	**$ 1.03**	$ 0.78
Weighted average number of shares (in millions) used to compute diluted earnings per share	**224.2**	233.7
Diluted earnings per share, in dollars	**$ 1.03**	$ 0.78

For the fiscal year ended March 3, 2012, 892,000 of antidilutive stock options have been excluded from the computation of diluted earnings per share (1,808,000 for the fiscal year ended February 26, 2011). The other outstanding stock options have an immaterial effect on the calculation of the diluted earnings per share.

11. Inventories

For the fiscal year ended March 3, 2012, the allowance for inventory losses recorded as expenses in the cost of sales was $1.1 million (0.8 in 2011).

12. Long-term receivables from franchisees

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	$
Long-term receivables from franchisees	**39.2**	40.1	40.1
Less: current portion (included in trade and other receivables)	**(5.8)**	(5.4)	(6.8)
	33.4	34.7	33.3

Long-term receivables from franchisees are accounted for using the effective interest rate method. As at March 3, 2012, the principal amount of these investments was $48.6 million (February 26, 2011 - $49.8 million and February 28, 2010 - $47.9 million) before the discount effect of $1.3 million (February 26, 2011 - $2.1 million and February 28, 2010 - $3.3 million) and before deduction of a provision for undiscounted losses of $8.1 million (February 26, 2011 - $7.6 million and February 28, 2010 - $4.5 million). These investments bear interest at rates up to 8.0% (February 26, 2011 - 8.0% and February 28, 2010 - 8.5%), carry repayment terms up to 2028 and certain of these receivables are renewable.

13. 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. Both were assessed as level 3 instruments as of March 3, 2012, as of February 26, 2011 and as of February 28, 2010 because significant unobservable market inputs are used in their valuation. The details in the changes in balances in the consolidated statement of financial position, and the impact in the consolidated statement of income (Note 8) are presented as follows:

	2012	2011
	$	$
Fair value of ABCP, beginning of year	**20.2**	19.8
Change in fair value recognized in the consolidated profit or loss	**1.8**	1.1
Principal repayments	**(0.3)**	(0.6)
Exercise of options of repayment	**(2.7)**	-
Effect of change in exchange rates	**-**	(0.1)
Fair value of ABCP, end of year	**19.0**	20.2
Options of repayment, beginning of year	**2.8**	2.9
Change in fair value recognized in the consolidated profit or loss	**0.1**	(0.1)
Exercise of options of repayment	**(2.9)**	-
Options of repayment, end of year	**-**	2.8
	19.0	23.0

13. Other financial assets *(continued)*

a) ABCP

On March 3, 2012, the Corporation held ABCP of a nominal amount of $23.5 million. As at March 3, 2012, nominal values of Master Asset Vehicles ("MAV") II and MAV III notes are $23.2 million for traditional assets tracking notes (A1 - $10.4 million, A2 - $10.2 million, B - $1.9 million and C - $0.7 million) and $0.3 million of traditional assets tracking notes, respectively. As at March 3, 2012, the total loss in value recorded was $4.5 million representing 19.1% of the ABCP's nominal value at that date.

The Corporation valued its ABCP as at March 3, 2012. 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.

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. As at May 27, 2011, the Corporation exercised the options to repay drawdowns of credit facilities with restructured notes for the ineligible assets tracking notes category.

As at March 3, 2012, the Corporation held options to repay drawdowns of credit facilities with restructured notes for the traditional assets tracking notes category. The Corporation evaluated and accounted for these options to repay drawdowns of credit facilities with restructured notes at fair value. This fair value was immaterial as at March 3, 2012.

14. Investment in associates

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	$
Investment in associate - Rite Aid	**-**	-	-
Investment in associates - Other	**6.9**	7.6	7.9
	6.9	7.6	7.9

Investment in associate - Rite Aid

As at March 3, 2012, the Corporation held an equity interest of 26.1% (February 26, 2011 - 28.3% and February 28, 2010 - 28.4%) in Rite Aid. The equity interest in Rite Aid represents an investment in associate, which is accounted for using the equity method. On March 3, 2012, the quoted market value of equity interest in Rite Aid was US$391.4 million (February 26, 2011 - US$322.5 million and February 28, 2010 - US$383.0 million).

In accordance with the provisions of Rule 144 under the Securities Act of 1933, as at July 5, 2011, the Corporation filed a notice confirming its intent to dispose approximately 25,000,000 common shares of Rite Aid. For the fiscal year ended March 3, 2012, the Corporation sold 17,574,100 common shares of Rite Aid for a total consideration of $22.0 million (US$22.9 million), net of related costs, which has been recorded in the gains on sales of investment in associate Rite Aid since the carrying value of this investment is zero. As of March 3, 2012, the Corporation held 234,401,162 common shares of Rite Aid (February 26, 2011 and February 28, 2010 - 251,975,262). Following the filing, on April 17, 2012, of another notice of intent of sale for this purpose, the Corporation sold 56,000,000 common shares of Rite Aid after the reporting period of the fiscal year (Note 34).

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 IFRS, 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 March 3, 2012, the Corporation's unrecognized share of loss in Rite Aid, net of dilution gain related to the partial sales of this investment, amounted to $40.8 million ($159.8 million in 2011). As at March 3, 2012, the Corporation's total unrecognized share of loss in Rite Aid amounted to $298.7 million (February 26, 2011 - $257.9 million and February 28, 2010 - $98.1 million).

14. Investment in associates *(continued)*

Investment in associate - Rite Aid *(continued)*

The following tables present Rite Aid Corporation's selected financial information derived from their audited consolidated financial statements as at March 3, 2012, February 26, 2011 and February 27, 2010, in accordance with US GAAP, in million of US dollars. The Corporation has also presented this information using IFRS for information purposes.

	US GAAP	**IFRS**	US GAAP	IFRS
	2012	**2012**	2011	2011
	US$	**US$**	US$	US$
Rite Aid's consolidated statement of income data:				
Revenues	**26,121.2**	**26,121.2**	25,214.9	25,214.9
Net loss	**(368.6)**	**(183.8)**	(555.4)	(509.2)

		US GAAP	
	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	US$	US$	US$
Rite Aid's consolidated statement of financial position data:			
Total assets	**7,364.3**	7,555.9	8,049.9
Total liabilities	**9,951.0**	9,767.2	9,723.5
Stockholders' deficit	**(2,586.7)**	(2,211.3)	(1,673.6)

		IFRS	
	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	US$	US$	US$
Rite Aid's consolidated statement of financial position data:			
Total assets	**8,277.6**	8,299.5	8,735.0
Total liabilities	**9,790.7**	9,621.9	9,557.2
Stockholders' deficit	**(1,513.1)**	(1,322.4)	(822.2)

15. Property and equipment

	Land	Buildings	Leasehold improvements	Equipment	Constructions in progress	Total
	$	$	$	$	$	$
Cost						
Balance at February 28, 2010	88.4	304.4	17.0	70.4	12.9	493.1
Additions	9.8	6.1	1.2	4.0	21.2	42.3
Disposals	(1.5)	(0.3)	-	(0.5)	-	(2.3)
Transfers	-	23.7	-	-	(23.7)	-
Balance at February 26, 2011	96.7	333.9	18.2	73.9	10.4	533.1
Additions	2.4	4.3	-	5.1	11.6	23.4
Disposals	(1.9)	-	-	(0.3)	-	(2.2)
Transfers	0.4	15.8	0.8	-	(17.0)	-
Transfers to investment property	(0.6)	(3.8)	-	-	-	(4.4)
Balance at March 3, 2012	**97.0**	**350.2**	**19.0**	**78.7**	**5.0**	**549.9**
Accumulated depreciation						
Balance at February 28, 2010	-	87.6	8.4	55.8	-	151.8
Depreciation	-	11.9	1.3	6.1	-	19.3
Disposals	-	(0.1)	-	(0.3)	-	(0.4)
Balance at February 26, 2011	-	99.4	9.7	61.6	-	170.7
Depreciation	-	12.9	1.4	5.3	-	19.6
Disposals	-	-	-	-	-	-
Transfers to investment property	-	(1.5)	-	-	-	(1.5)
Balance at March 3, 2012	**-**	**110.8**	**11.1**	**66.9**	**-**	**188.8**
Carrying amounts						
At February 28, 2010	88.4	216.8	8.6	14.6	12.9	341.3
At February 26, 2011	96.7	234.5	8.5	12.3	10.4	362.4
At March 3, 2012	**97.0**	**239.4**	**7.9**	**11.8**	**5.0**	**361.1**

Carrying amounts as of March 3, 2012 include $93.3 million (February 26, 2011 - $92.9 million and February 28, 2010 - $84.7 million) of lands held for leasing and $206.7 million (February 26, 2011 - $200.5 million and February 28, 2010 - $182.1 million) of buildings held for leasing.

16. Investment property

	Land	Buildings	Constructions in progress	Total
	$	$	$	$
Cost				
Balance at February 28, 2010	9.3	25.8	-	35.1
Additions	-	0.4	-	0.4
Disposals	(0.4)	(3.8)	-	(4.2)
Balance at February 26, 2011	8.9	22.4	-	31.3
Additions	-	-	0.3	0.3
Disposals	(1.1)	(3.3)	-	(4.4)
Transfer from investment property	0.6	3.8	-	4.4
Balance at March 3, 2012	**8.4**	**22.9**	**0.3**	**31.6**
Accumulated depreciation				
Balance at February 28, 2010	-	11.1	-	11.1
Depreciation	-	0.8	-	0.8
Disposals	-	(1.1)	-	(1.1)
Balance at February 26, 2011	-	10.8	-	10.8
Depreciation	-	0.6	-	0.6
Disposals	-	(1.8)	-	(1.8)
Transfer from investment property	-	1.5	-	1.5
Balance at March 3, 2012	**-**	**11.1**	**-**	**11.1**
Carrying amounts				
At February 28, 2010	9.3	14.7	-	24.0
At February 26, 2011	8.9	11.6	-	20.5
At March 3, 2012	**8.4**	**11.8**	**0.3**	**20.5**

16. Investment property *(continued)*

Investment property comprises a number of commercial properties that are leased to third parties. The fair value of the investment property is $24.3 million as of March 3, 2012 ($23.3 million as of February 26, 2011 and $27.4 million as of February 28, 2010).

For the fiscal year ended March 3, 2012, the Corporation has recorded, in other revenues, $1.5 million ($1.4 million in 2011) for rental income from investment properties and has recorded, in general and operating expenses, $0.9 million ($0.9 million in 2011) of direct operating expenses related to this same investment properties. In addition, the Corporation has recorded direct operating costs of $0.2 million ($0.4 million in 2011) related to investment properties for which no rental income was earned.

Fair values are based on market values when available. Market value is the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction where the parties had each acted knowledgeably.

Where market values are not available, fair values are prepared using the income approach by considering the estimated cash flows expected from renting out the property based on existing lease terms and where appropriate, the ability to renegotiate the lease terms once the initial term or option term(s) expire plus the net proceeds from a sale of the property at the end of the lease period. The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements, and capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property.

An external independent valuation corporation with appropriate professional qualifications and recent experience in the location and category of property being valued the Corporation's significant investment properties as of February 28, 2010.

This fair value was subsequently updated by management through valuation techniques, considering the total discounted cash flows expected to be received from renting out the properties. A rate that reflects the specific risks inherent to the net cash flows is applied to the net annual cash flows to derive the property valuation. As at March 3, 2012, the pre-tax discount rates used in the valuations for investment properties ranged from 7.25% to 9.50%.

17. Intangible assets

	Banner development costs
	$
Cost	
Balance at February 28, 2010	198.9
Additions	45.5
Balance at February 26, 2011	244.4
Additions	22.7
Balance at March 3, 2012	**267.1**
Accumulated amortization	
Balance at February 28, 2010	61.2
Amortization	8.8
Balance at February 26, 2011	70.0
Amortization	10.2
Balance at March 3, 2012	**80.2**
Carrying amounts	
At February 28, 2010	137.7
At February 26, 2011	174.4
At March 3, 2012	**186.9**

18. Goodwill

The carrying amount of goodwill is $36.0 million as at March 3, 2012, February 26, 2011 and February 28, 2010, of which $20.0 million was allocated to the franchising CGU and $16.0 million was allocated to the generic drugs CGU.

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to CGUs. As at the date selected for test, the Corporation determined that there was no impairment of any of its CGUs containing goodwill. In order to determine whether impairments are required, the Corporation estimates the recoverable amount of each CGU. Recoverable amounts of units are determined on the basis of value in use calculations. Value in use in 2012 was determined similarly as in 2011. The calculation of present value is based on projecting future cash flows over a five-year period and using a terminal value to incorporate expectations of growth thereafter.

18. Goodwill *(continued)*

Impairment testing for cash-generating units containing goodwill *(continued)*

The calculation of the value in use was based on the following key assumptions:

- The approved budget for the following financial year forms the basis for the cash flow projections for a CGU. The cash flow projections for the four financial years following budget year are consistent with past experience and reflect management's expectation of the medium term operating performance of the CGU and expected growth of the CGU's markets.

- The value in use calculation includes estimates about the future financial performance of the CGU. One of the key drivers of the operating cash flow is revenues. The five-year period revenue growth rates were assessed taking into account past experience and the expected growth for each CGU.

- A terminal value is included for the period beyond five years from the statement of financial position date based on the estimated cash flow in the fifth year and a terminal growth rate of 3.7% (3.7% in 2011). This terminal growth rate does not exceed the average long-term growth rate for the relevant markets.

- The Corporation uses a pre-tax discount rate of 9.0% per annum (8.0% in 2011). The discount rate was estimated based on the industry range weighted average cost of capital.

Management believes that any reasonably possible change in the key assumptions on which the CGU's recoverable amount is based will not impact the conclusion on impairment test.

19. Other long-term assets

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	$
Rent escalation assets	**8.1**	8.4	8.7
Other	**2.5**	1.7	1.5
	10.6	10.1	10.2

20. Trade and other payables

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	$
Trade and other accruals	**181.3**	162.1	149.2
Accrued expenses and others	**36.2**	43.4	41.0
Deferred revenues	**13.1**	3.2	3.6
	230.6	208.7	193.8

21. Long-term debt

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	
Unsecured revolving credit facility, maturing on May 8, 2012, bearing interest at a weighted average rate of 1.65% (February 26, 2011 - 1.65% and February 28, 2010 - 0.85%). Interest rate is repriced periodically for terms generally not exceeding one month.	**149.9**	184.8	199.9
Unsecured revolving credit facility, maturing on November 10, 2016.	**-**	-	-
	149.9	184.8	199.9
Short term portion of long-term debt	**149.9**	-	-
	-	184.8	199.9

a) Credit agreement

On November 10, 2011, the Corporation entered into an unsecured revolving credit facility in the amount of $500.0 million maturing on November 10, 2016. The applicable interest rate under the credit facility is the Canadian prime rate plus a variable margin (totalling 3.00% as at March 3, 2012) or the banker acceptance rate plus a variable margin (totalling 2.05% as at March 3, 2012). Margins depend on the achievement of certain financial ratios. As at March 3, 2012, this credit facility was unused.

21. Long-term debt *(continued)*

a) Credit agreement *(continued)*

The Corporation had access to an unsecured revolving credit facility in the amount of $500.0 million maturing on May 8, 2012. On November 10, 2011, the Corporation permanently reduced this unsecured revolving credit facility to an amount equal to $200.0 million. The applicable interest rate under the credit facility is the Canadian prime rate plus a variable margin (totalling 3.00% as at March 3, 2012, 3.00% as at February 26, 2011 and 2.25% as at February 28, 2010) or the banker acceptance rate plus a variable margin (totalling 1.65% as at March 3, 2012, 1.65% as at February 26, 2011 and 0.85% as at February 28, 2010). Margins depend on the achievement of certain financial ratios. As at March 3, 2012, $150.3 million of the available credit facility was used (February 26, 2011 - $185.3 million and February 28, 2010 - $200.3 million), including outstanding letters of credit of $0.3 million (February 26, 2011 - $0.3 million and February 28, 2010 - $0.3 million).

Under the terms and conditions of these credits agreements, the Corporation must satisfy certain covenants as the maintenance of financial ratios, which are described in Note 24, and the compliance with certain conditions regarding indebtedness, investments and business acquisitions. As at March 3, 2012, February 26, 2011 and February 28, 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. The applicable interest rate under the credit facilities is the prime rate plus a variable margin (totalling 2.00% as at March 3, 2012, 2.00% as at February 26, 2011 and 1.25% as at February 28, 2010) or the banker acceptance rate plus a variable margin (totalling 1.85% as at March 3, 2012, 1.85% as at February 26, 2011 and 1.05% as at February 28, 2010), and may be renewed for periods of 12 consecutive months until reaching a total term of 7 years. On May 27, 2011, the Corporation exercised options and repaid drawdowns of credit facilities with restructured notes.

The total available revolving credit facilities is reduced in case of subsequent repayments of certain ABCP, reducing the amount available to 10.2 million as at March 3, 2012. These revolving credit facilities are secured by a first ranking security interest on ABCP that are described in Note 13a). As at March 3, 2012, as at February 26, 2011 and as at February 28, 2010, none of these credit facilities were used.

b) Minimum repayments

The entire outstanding debt as at March 3, 2012 is repayable during the fiscal year ending March 2, 2013. The debt will be repaid through the new unsecured revolving credit facility maturing on November 10, 2016.

22. Other long-term liabilities

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	$
Deferred lease obligations	**10.8**	11.7	12.5
Defined benefit pension obligations (Note 28)	**2.7**	2.7	4.8
Other	**0.4**	-	-
	13.9	14.4	17.3

23. 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:

	2012		2011	
	(shares in millions)	**$**	*(shares in millions)*	$
Class A subordinate voting shares				
Outstanding shares, beginning of year	**115.4**	**614.4**	118.9	650.8
Exercise of exchange privilege	**-**	**-**	3.0	-
Repurchased and cancelled	**(10.7)**	**(55.5)**	(6.5)	(35.1)
Repurchased and not cancelled	**-**	**-**	-	(1.5)
Stock options exercised	**0.1**	**0.8**	-	0.2
Outstanding shares, end of year	**104.8**	**559.7**	115.4	614.4

23. Capital stock *(continued)*

Changes that occurred in capital stock are presented as follows: *(continued)*

	2012		2011	
	(shares in millions)	**$**	*(shares in millions)*	$
Class B shares				
Outstanding shares, beginning of year	**114.4**	**-**	117.4	-
Exercise of exchange privilege	**-**	**-**	(3.0)	-
Outstanding shares, end of year	**114.4**	**-**	114.4	-

a) Normal course issuer bid

On May 2, 2011, the Corporation announced its intention to repurchase for cancellation, up to 10,400,000 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, 2012. The shares were repurchased through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

On April 29, 2010, the Corporation had announced its intention to repurchase for cancellation 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. During the term of this repurchase program, 6,819,900 shares have been repurchased through the facilities of the Toronto Stock Exchange and in accordance with its requirements.

For the years ended March 3, 2012 and February 26, 2011, the Corporation repurchased 10,400,000 and 6,819,900 Class A subordinate voting shares at an average price of $11.93 and $9.23 per share for a total consideration of $124.1 million and $63.0 million including related costs, respectively. Amounts of $68.6 million and $26.4 million representing the excess of the purchase price over the carrying value of the repurchased shares were included in retained earnings for the years ended March 3, 2012 and February 26, 2011, respectively. The shares repurchased during fiscal year ended March 3, 2012 were cancelled during this period. The shares repurchased during fiscal year ended February 26, 2011 were cancelled during this period, except for 287,200 shares that were cancelled after February 26, 2011.

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.

23. Capital stock *(continued)*

c) Stock options exercised

Following the stock options exercised, 69,890 Class A subordinate voting shares were issued for the fiscal year ended March 3, 2012 (23,616 in 2011).

d) Dividends

The following dividends were declared and paid by the Corporation:

	2012	2011
	$	$
$0.24 ($0.22 in 2011) per Class A subordinate voting shares	**26.4**	26.1
$0.24 ($0.22 in 2011) per Class B shares	**27.4**	25.3
	53.8	51.4

On May 2, 2012, the Board of directors approved a quarterly dividend of $0.07 per share. This dividend will be paid on June 1, 2012, 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 18, 2012.

24. 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 26, 2011.

24. Capital disclosure *(continued)*

The Corporation defines its capital as 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 IFRS 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 depreciation and amortization.

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

	2012	2011
	$	$
Bank overdraft	**5.0**	16.5
Short term portion of long-term debt	**149.9**	-
Long-term debt	**-**	184.8
Net debt	**154.9**	201.3
Shareholders' equity	**649.2**	598.3
Total capitalization	**804.1**	799.6
Operating income before depreciation and amortization	**311.2**	290.5
Net debt to shareholder's equity	**19.3%**	25.2%
Net debt to operating income before depreciation and amortization	**0.5**	0.7

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 and $200 million revolving credit facilities described in Note 21. These financial covenants require 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 facilities with regards to the maintenance of those ratios.

25. Share-based payments

a) Stock option 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 five days preceding the date of the granting of the options. An option's maximum term is 10 years. The maximum term of options is in January 2021. Granted options vest annually over a maximum period of four years.

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

	2012		2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
	(in millions)	***(in dollars)***	*(in millions)*	*(in dollars)*
Options outstanding, beginning of year	**2.0**	**11.90**	1.9	12.56
Options granted	**0.2**	**13.24**	0.4	9.27
Options exercised	**(0.1)**	**9.65**	-	7.88
Options forfeited	**(0.1)**	**10.67**	(0.2)	15.06
Options expired	**(0.1)**	**13.00**	(0.1)	9.27
Options outstanding, end of year	**1.9**	**12.12**	2.0	11.90
Options exercisable, end of year	**1.4**	**12.76**	1.4	13.15

The following table summarizes information about the stock options as at March 3, 2012:

	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**	**8.1**	**8.63**	**0.3**	**8.35**
$10 - $15	**0.9**	**6.0**	**12.51**	**0.7**	**12.72**
$15 - $20	**0.4**	**2.0**	**16.75**	**0.4**	**16.75**
	1.9	**5.9**	**12.12**	**1.4**	**12.76**

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

a) Stock option 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:

	2012	2011
Expected dividend yield	**1.92%**	2.39%
Expected volatility	**29.75%**	33.06%
Risk-free interest rate	**1.26%**	2.70%
Expected life (years)	**5**	6

During the fiscal year ended March 3, 2012, the Corporation granted 191,640 stock options (394,490 in 2011). The fair value of those options is $2.91 for the fiscal year ended March 3, 2012 ($2.61 in 2011). An amount of $0.7 million for the fiscal year ended March 3, 2012 ($0.8 million in 2011) was expensed for the stock option plan.

b) Performance share plan

Since January 1, 2012, the Corporation has a performance share plan offered to its executive's officers. The performance shares rights have a vesting period of 3 years and have performance vesting conditions. The performance shares entitle the holders to receive Class A subordinate voting shares of the Corporation or at the discretion of thereof, the equivalent value in cash.

During the fiscal year ended March 3, 2012, the Corporation granted 50,510 performance shares. At March 3, 2012, 50,510 performance shares were outstanding.

The Corporation uses a Monte Carlo model to incorporate a market condition in the valuation of the performance shares.

The fair value of performance shares granted during the fiscal year ended March 3, 2012 is $11.73 by performance shares. No significant expense was recognized regarding performance shares for the fiscal year ended March 3, 2012.

Class A subordinate voting shares of the Corporation are held in trust for the benefit of the holders until the rights attached to the performance shares are acquired or canceled. The trust, considered a special purpose entity, is consolidated in financial statements of the Corporation and the cost of shares acquired is presented in equity as treasury stocks in the consolidated financial position of the Corporation. During the fiscal year ended March 3, 2012, the Corporation acquired 76,639 Class A subordinate voting shares at an average price of $13.16. The Corporation still holds these shares as of March 3, 2012.

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

c) Stock appreciation right plan and share unit plan

The Corporation has a stock appreciation right and a share unit plan. During the fiscal year ended March 3, 2012, the Corporation granted 16,230 share units (20,088 in 2011) and 179,540 stock appreciation rights (170,008 in 2011). As at March 3, 2012, 140,485 share units (February 26, 2011 - 124,255 and February 28, 2010 - 104,167) and 349,548 stock appreciation rights (February 26, 2011 - 255,468 and February 28, 2010 - 85,460) were outstanding.

An amount of $0.9 million was expensed regarding those plans for the fiscal year ended March 3, 2012 ($0.2 in 2011). On March 3, 2012, The Corporation had a liability of $2.2 million included in the trade and other payables account related to those plans (February 26, 2011 - $1.3 million and February 28, 2010 - $1.1 million).

26. 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 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. During the fourth quarter of fiscal 2012, an agreement was reached with the IRS without any amount payable or refund. Therefore, the Corporation reversed the provision previously recorded with respect to this issue. Some tax audits conducted by other jurisdictions are still ongoing. Although these audits' final outcome cannot be determined with certainty, the Corporation believes its provision, including the portion recorded during the fiscal year 2012, 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.

The Corporation has guaranteed the reimbursement of certain bank loans contracted by franchisees for a maximum amount of $1.1 million as at March 3, 2012 (February 26, 2011 - $3.4 million and February 28, 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.

26. Guarantees and contingencies *(continued)*

b) Buyback agreements

Under buyback agreements, the Corporation is committed to financial institutions to purchase the inventories of certain of its franchisees, when they are in default, up to the amount of advances made by those financial institutions to the franchisees. As at March 3, 2012, financing related to these inventories amounted to $111.5 million (February 28, 2011 - $116.6 million and February 28, 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 finance leases not exceeding 5 years and loans not exceeding 15 years. For finance 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 March 3, 2012, financing related to the equipment amounted to $76.0 million (February 26, 2011 - $69.0 and February 28, 2010 - $61.1 million).

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 March 3, 2012, February 26, 2011 and February 28, 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 risks 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.

27. Commitments

The following commitments represent the Corporation's commitments under its operating leases as lessee or lessor and under its contractual obligations related to property and equipment.

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 end of the lease terms. Some leases have escalation clauses. No contingent rents are paid. The rental payments for the fiscal year ended March 3, 2012 are $57.0 million (2011 - $50.2 million).

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

	Minimum payments under operating leases
	$
2013	**44.3**
2014	**43.0**
2015	**38.7**
2016	**40.7**
2017	**38.9**
Thereafter	**252.5**
	458.1

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

27. Commitments *(continued)*

b) The Corporation as lessor

The Corporation leases a substantial portion of its lands and buildings classified under property and equipment (Note 15), 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 March 3, 2012, the Corporation has current receivables (included in trade and other receivables) of $5.9 million (February 26, 2011 - $5.8 million and February 28, 2010 - $8.3 million) related to its operating leases. Rental income (included in other revenues (Note 5)) is as follows:

	2012	2011
	$	$
Rental income from lands and buildings classified under property and equipment	**33.7**	31.2
Rental income from subleases	**52.3**	49.7
	86.0	80.9

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**
	$	**$**
2013	**31.7**	**42.5**
2014	**26.3**	**39.8**
2015	**21.9**	**38.2**
2016	**18.7**	**35.6**
2017	**15.1**	**32.0**
Thereafter	**40.7**	**181.5**
	154.4	**369.6**

27. Commitments *(continued)*

c) Commitments related to property and equipment

The Corporation also has other commitments including commitments for the acquisition and construction of buildings with contractors totalling $2.9 million. These minimum payments are payable during the fiscal year ending March 2, 2013.

28. Pension plans

The Corporation offers defined benefit and defined contribution pension plans providing pension benefits to its employees. Under the defined benefit pension plans, the employees are entitled to a life annuity at retirement calculated based on the equivalent of 2% of the average salary of the best three years for each year of service. The service period recognized can not exceed 35 years. The measurement date used for financial reporting purposes of the plan assets and benefit obligations is March 3, 2012 (February 26, 2011 and February 28, 2010).

The most recent actuarial valuation of the plans' assets and the present value of the defined benefit obligation was carried out at December 31, 2010.

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

	2012	2011
	$	$
Defined contribution pension plans expense	**2.0**	1.8
Defined benefit pension plans expense:		
Current service cost	**1.2**	1.0
Interest expense on defined pension obligations	**1.2**	1.1
Expected return on plan assets	**(0.9)**	(0.7)
Amendments to pension plans	**(0.1)**	0.9
Defined benefit pension plans' expense	**1.4**	2.3

The pension expense is recorded in the following components in the consolidated statement of income:

	2012	2011
	$	$
General and operating expenses	**3.1**	3.7
Financing expenses, net	**0.3**	0.4
	3.4	4.1

28. Pension plans *(continued)*

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

	2012	2011
	$	$
Present value of the defined benefit obligations		
Balance, beginning of year	**20.9**	17.1
Current service cost	**1.2**	1.0
Interest expense on defined pension obligation	**1.2**	1.1
Benefits paid	**(0.3)**	(0.2)
Amendments to pension plans	**0.2**	1.3
Actuarial losses in other comprehensive income	**2.1**	0.6
Balance, end of year	**25.3**	20.9
Fair value of the plan assets		
Balance, beginning of year	**19.3**	13.5
Expected return on plan assets	**0.9**	0.7
Actuarial gain (loss) in other comprehensive income	**(1.2)**	0.5
Contributions	**3.9**	4.4
Amendments to pension plans	**-**	0.4
Benefits paid	**(0.3)**	(0.2)
Balance, end of year	**22.6**	19.3
Deficit, end of year	**2.7**	1.6
Unrecognized assets due to limit on the asset	**-**	1.1
Defined benefit obligation included in other long-term liabilities	**2.7**	2.7

28. Pension plans *(continued)*

The experience adjustments are as follows:

	2012	2011
	$	$
Losses (gains) related to plan assets experience	**1.2**	(0.5)
Losses (gains) related to plan liabilities experience	**0.1**	(0.4)

Cumulative actuarial losses on pension plans recognized in other comprehensive income are as follows:

	2012	2011
	$	$
Cumulative actuarial losses, beginning of year	**0.1**	-
Amount recognized during the year	**3.3**	0.1
Cumulative actuarial losses, end of year	**3.4**	0.1

Cumulative pension plans asset limitation recorded in other comprehensive income is as follows:

	2012	2011
	$	$
Cumulative pension plans asset limitation, beginning of year	**1.1**	1.2
Amount recognized during the year	**(1.1)**	(0.1)
Cumulative pension plans asset limitation, end of year	**-**	1.1

As at February 26, 2011 and February 28, 2010, some of the pension plans of the Corporation had defined benefit obligation exceeding the plan assets value. The defined benefit obligation for those plans was $15.3 million and $12.4 million as at February 26, 2011 and February 28, 2010, respectively, and the fair value of plan assets was $12.9 million and $8.5 million as at February 26, 2011 and February 28, 2010, respectively. As at March 3, 2012, all the pension plan's had defined benefit obligations exceeding the plan assets value.

28. Pension plans *(continued)*

As at March 3, 2012, 30% of the plan assets fair value was deposited as Canadian refundable tax (February 26, 2011 and February 28, 2010 - 28%) 65% was invested (February 26, 2011 and February 28, 2010 - 72%) and 5% was a receivable (none as at February 26, 2011 and February 28, 2010). The balance invested consists of the following allocations:

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	%	%	%
Balanced funds	**53**	51	58
Equity funds	**47**	44	42
Other	**-**	5	-

No plan assets are directly invested in the Parent Corporation or its subsidiaries' securities. Plans assets do not include any property occupied or other assets used by the Corporation.

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

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	%	%	%
Defined benefit obligations			
Discount rate	**4.75**	5.50	6.00
Rate of compensation increase	**3.50**	3.50	4.00

	2012	2011
	%	%
Defined benefit expenses		
Discount rate	**5.50**	6.00
Expected long-term rate of return on plan assets	**6.00**	6.25
Expected rate of compensation increase	**3.50**	4.00

The overall expected rate of return is a weighted average of the expected returns of the categories of plan assets held. Management's assessment of the expected returns is based on historical return trends and analysts' market predictions for the asset over the life of the related obligation. The rate used is a prospective long-term rate. There can be no assurance that the plans will earn the expected rate of return.

The actual return on plan assets for the fiscal year ended March 3, 2012 was negative of $0.3 million (an income of $1.2 million in 2011).

28. Pension plans *(continued)*

The Corporation expects $3.2 million in contributions to be paid to its defined benefit plans in the year ended March 2, 2013.

For fiscal year ended March 3, 2012, the expense for provincial and federal pensions plans was $2.2 million ($2.1 in 2011).

29. Related party transactions

Balances and transactions between the parent corporation and its subsidiaries, which are related parties of the Corporation, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below.

a) Parent and ultimate controlling party

As at March 3, 2012, Mr. Jean Coutu held the ultimate control of the Jean Coutu Group (PJC) Inc.

b) Key management personnel compensation

In addition to salary to the executive officers, the Corporation also contributes to a defined benefit retirement plan funded entirely by the Corporation (Note 28). Executive officers also participate, according to their status, to one or more plans of long-term compensation offered by the Corporation which are, the stock option plan, the performance share plan, the stock appreciation right plan and the share unit plan. The compensation below includes the Board of directors, the President and Chief Executive Officer and the Senior Vice-Presidents' compensation.

	2012	2011
	$	$
Short-term employee benefits	**5.6**	4.7
Post-employment benefits	**0.6**	0.5
Share-based payments	**1.3**	0.5
	7.5	5.7

As at March 3, 2012, February 26, 2011 and February 28, 2010 the Corporation had no loans to key management personnel.

29. Related party transactions *(continued)*

c) Transactions with enterprises controlled by executives

The Corporation entered into the following transactions with enterprises controlled by executives having a significant influence over the Corporation or close member of these executives' family :

	2012	2011
	$	$
Revenues		
Sales	**64.3**	53.9
Royalties	**3.8**	3.0
Rent	**2.2**	1.8
Credit to franchisees	**(0.3)**	(0.8)

As at March 3, 2012, the Corporation's trade and other receivables include an amount of $4.9 million (February 26, 2011 - $5.0 million) resulting from these transactions. Long-term receivables from franchisees included $0.5 million receivable from a related franchisee as of March 3, 2012 (February 26, 2011 - $0.9). During the fiscal year ended March 3, 2012, no banner development costs was paid to executives to acquire a franchised store while $6.9 million was paid in 2011. These transactions are carried out in the normal course of business and are made under the same terms and conditions as those made with other franchisees.

30. Financial instruments disclosure

a) Carrying amounts by financial asset and liability category :

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	$
Financial assets held for trading			
ABCP	**19.0**	20.2	19.8
Options to repay drawdowns of credit facilities with restructured notes	**-**	2.8	2.9
Loans and receivables			
Trade and other receivables	**206.5**	193.5	192.7
Long-term receivables from franchisees	**33.4**	34.7	33.3
Financial liabilities			
Bank overdraft	**5.0**	16.5	13.3
Trade and other payables	**230.6**	208.7	193.8
Short term portion of long-term debt	**149.9**	-	-
Long-term debt	**-**	184.8	199.9

30. Financial instruments disclosure *(continued)*

b) Fair value

As at March 3, 2012, February 26, 2011 and February 28, 2010, the fair value of trade and other receivables and trade and others payables 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 March 3, 2012, February 26, 2011 and February 28, 2010 as their effective interest rates were 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 13a).

The fair value of options to repay drawdowns of credit facilities with restructured notes described in Note 13b) was determined using the Black & Scholes option pricing model and also takes into account the fair value of the underlying ABCP at the date of assessment.

The fair value of long-term debt was not significantly different from its carrying amount as at March 3, 2012, February 26, 2011 and February 28, 2010 given it mainly bore interest at rates based on market rates for terms generally not exceeding one month. At each reporting period, 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 March 3, 2012, February 26, 2011 and as at February 28, 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 13.

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, trade and other receivables 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 trade and other receivables and long-term receivables from franchisees by the Corporation's management.

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

30. Financial instruments disclosure *(continued)*

d) Credit risk *(continued)*

Allowance for credit losses is reviewed at each reporting period. 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:

	2012	2011
	$	$
Balance, beginning of year	**6.5**	3.0
Allowance for credit losses	**5.5**	6.5
Write-off	**(4.8)**	(3.0)
Balance, end of year	**7.2**	6.5

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 March 3, 2012, the Corporation had accounts payable and accrued liabilities of $230.6 million (February 26, 2011 - $208.7 million and February 28, 2010 - $193.8 million) due over the next 12 months. Due dates for long-term debt and commitments are presented in Notes 21 and 27, 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 March 3, 2012, $149.9 million (February 26, 2011 - $184.8 million and February 28, 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 13).

30. 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. The Corporation did not have such financial instruments at March 3, 2012. For the fiscal year ended March 3, 2012, a 100 basis points increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a $1.2 million decrease or increase in the Corporation's net earnings, respectively.

g) Foreign exchange risk

As at March 3, 2012, February 26, 2011 and February 28, 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.

31. Supplemental cash flow information

	2012	2011
	$	$
Net changes in non-cash asset and liability items		
Change in trade and other receivables and prepaid expenses	**(17.7)**	(2.7)
Change in inventories	**7.0**	(9.4)
Change in trade and other payables	**28.7**	13.9
Change in other long-term assets	**0.6**	0.1
Change in other long-term liabilities	**(1.9)**	(2.1)
Net changes in non-cash asset and liability items	**16.7**	(0.2)

Other information

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	$
Property and equipment acquired included in trade and other payables	**2.4**	3.9	5.1
Redemption of capital stock included in trade and other payables	**-**	2.2	-

32. Segmented information

Segmented information is summarized as follows:

	2012	2011
	$	$
Revenues [1]		
Franchising	**2,729.0**	2,606.0
Generic drugs	**124.0**	124.5
Intersegment sales	**(119.9)**	(117.7)
	2,733.1	2,612.8
Operating income before depreciation and amortization		
Franchising	**252.7**	237.5
Generic drugs	**58.1**	60.1
Intersegment eliminations	**0.4**	(7.1)
	311.2	290.5
Depreciation and amortization		
Franchising	**30.3**	28.8
Generic drugs	**0.1**	0.1
	30.4	28.9
Operating income		
Franchising	**222.4**	208.7
Generic drugs	**58.0**	60.0
Intersegment eliminations	**0.4**	(7.1)
	280.8	261.6
Acquisition of property and equipment, investment property and intangible assets		
Franchising	**46.2**	88.1
Generic drugs	**0.2**	0.1
	46.4	88.2

[1] Revenues include sales and other revenues.

32. Segmented information *(continued)*

	As at March 3, 2012	As at February 26, 2011	As at February 28, 2010
	$	$	$
Total assets			
Franchising	**1,078.5**	1,066.4	996.6
Generic drugs	**42.6**	31.7	33.9
Investment in Rite Aid	**-**	-	-
Intersegment eliminations	**(48.3)**	(38.4)	(34.7)
	1,072.8	1,059.7	995.8
Total liabilities			
Franchising	**439.1**	461.8	466.9
Generic drugs	**16.0**	21.9	23.2
Intersegment eliminations	**(31.5)**	(22.3)	(23.4)
	423.6	461.4	466.7

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

33. Explanation of transition to IFRS

The Corporation's consolidated financial statements for the fiscal year ended March 3, 2012 are the first annual consolidated financial statements that comply with IFRS. These consolidated financial statements were prepared as described in Note 3, including the application of IFRS 1. IFRS 1 requires an entity to adopt IFRS in its first annual consolidated financial statements prepared under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. This statement is include in Note 2 of these annual financial statements.

IFRS 1 also requires that comparative financial information be provided. As a result, the first date at which the Corporation has applied IFRS was February 28, 2010 (the “Transition Date”). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Corporation was March 3, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

In preparing its opening IFRS consolidated statement of financial position, the Corporation has adjusted certain amounts reported previously in its financial statements prepared in accordance with Canadian GAAP. IFRS 1 requires an entity to reconcile its consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows. The Corporation's adoption of IFRS did not have any material adjustments to the consolidated statement of cash flows. An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income and consolidated statement of changes in equity is set out in the following tables and the notes that accompany the tables.

33. Explanation of transition to IFRS *(continued)*

Reconciliation of consolidated statement of financial position

As at February 26, 2011	Notes	Canadian GAAP	IFRS adjustments	IFRS
(in millions of Canadian dollars)		$	$	$
Current assets				
Trade and other receivables	c, g	197.0	(3.5)	193.5
Inventories		173.2	-	173.2
Prepaid expenses		6.9	-	6.9
Deferred tax	o	3.6	(3.6)	-
		380.7	(7.1)	373.6
Non-current assets				
Long-term receivables from franchisees		34.7	-	34.7
Other financial assets		23.0	-	23.0
Investment in associates		7.6	-	7.6
Property and equipment	i, j	414.4	(52.0)	362.4
Investment property	j, l	-	20.5	20.5
Intangible assets	k	-	174.4	174.4
Goodwill		36.0	-	36.0
Deferred tax	n, o	10.7	6.7	17.4
Other long-term assets	k	138.3	(128.2)	10.1
Total assets		1,045.4	14.3	1,059.7
Current liabilities				
Bank overdraft		16.5	-	16.5
Trade and other payables	h, m	210.1	(1.4)	208.7
Income taxes payable	n	28.7	6.9	35.6
		255.3	5.5	260.8
Non-current liabilities				
Long-term debt		184.8	-	184.8
Deferred tax	n	1.5	(0.1)	1.4
Other long-term liabilities	c, g, m	27.4	(13.0)	14.4
Total liabilities		469.0	(7.6)	461.4
Equity				
Capital stock		614.4	-	614.4
Contributed surplus	d, h	33.5	(32.1)	1.4
Accumulated other comprehensive income	e	80.1	(80.1)	-
Deficit	c, d, e, g, h, i, k, l, m	(151.6)	134.1	(17.5)
Total equity		576.4	21.9	598.3
Total liabilities and equity		1,045.4	14.3	1,059.7

33. Explanation of transition to IFRS *(continued)*

Reconciliation of consolidated statement of financial position

As at February 28, 2010	Notes	Canadian GAAP	IFRS adjustments	IFRS
(in millions of Canadian dollars)		$	$	$
Current assets				
Trade and other receivables	**c, g**	194.1	(1.4)	192.7
Inventories		163.8	-	163.8
Prepaid expenses		5.0	-	5.0
Deferred tax	**o**	3.8	(3.8)	-
		366.7	(5.2)	361.5
Non-current assets				
Long-term receivables from franchisees		33.3	-	33.3
Other financial assets		22.7	-	22.7
Investment in associates		7.9	-	7.9
Property and equipment	**i, j**	394.6	(53.3)	341.3
Investment property	**j, l**	-	24.0	24.0
Intangible assets	**k**	-	137.7	137.7
Goodwill		36.0	-	36.0
Deferred tax	**n, o**	15.8	5.4	21.2
Other long-term assets	**k**	107.9	(97.7)	10.2
Total assets		984.9	10.9	995.8
Current liabilities				
Bank overdraft		13.3	-	13.3
Trade and other payables	**h, m**	195.2	(1.4)	193.8
Income taxes payable	**n**	36.1	5.0	41.1
		244.6	3.6	248.2
Non-current liabilities				
Long-term debt		199.9	-	199.9
Deferred tax		1.3	-	1.3
Other long-term liabilities	**c, g, m**	29.5	(12.2)	17.3
Total liabilities		475.3	(8.6)	466.7
Equity				
Capital stock		650.8	-	650.8
Contributed surplus	**d, h**	32.7	(32.1)	0.6
Accumulated other comprehensive income	**e**	80.1	(80.1)	-
Deficit	**c, d, e, g, h, i, k, l, m**	(254.0)	131.7	(122.3)
Total equity		509.6	19.5	529.1
Total liabilities and equity		984.9	10.9	995.8

33. Explanation of transition to IFRS *(continued)*

Reconciliation of consolidated statement of income

For the fiscal year ended February 26, 2011	Notes	Canadian GAAP	IFRS adjustments	IFRS
(in millions of Canadian dollars, unless otherwise noted)		$	$	$
Sales		2,348.7	-	2,348.7
Other revenues	**k**	249.1	15.0	264.1
		2,597.8	15.0	2,612.8
Operating expenses				
Cost of sales		2,091.6	-	2,091.6
General and operating expenses	**g, h, m**	230.1	0.6	230.7
Operating income before depreciation and amortization [(1)]				290.5
Depreciation and amortization	**i, k**	17.6	11.3	28.9
Operating income		258.5	3.1	261.6
Financing expenses	**g**	0.7	0.4	1.1
Profit before income taxes		257.8	2.7	260.5
Income taxes		77.6	0.3	77.9
Net profit		180.2	2.4	182.6
Basic and diluted earnings per share, in dollars		0.77	0.01	0.78

Reconciliation of consolidated statement of comprehensive income

For the fiscal year ended February 26, 2011	Notes	Canadian GAAP	IFRS adjustments	IFRS
(in millions of Canadian dollars)		$	$	$
Net profit		180.2	2.4	182.6
Other comprehensive income				
Actuarial losses on defined benefits pension plans	**g**	-	(0.1)	(0.1)
Pension plan asset limitation on defined benefits pension plans	**g**	-	0.1	0.1
Income taxes on the above item		-	-	-
		-	-	-
Total comprehensive income		180.2	2.4	182.6

[(1)] Although this measurement was not a performance measure under Canadian GAAP, the Corporation's operating income before depreciation and amortization amounted to $291.1 million for the year ended February 26, 2011.

33. Explanation of transition to IFRS *(continued)*

Reconciliation of consolidated statement of changes in equity

	Notes	As at February 26, 2011	As at February 28, 2010
(in millions of Canadian dollars)		$	$
Total of equity as per Canadian GAAP		576.4	509.6
Differences increasing (decreasing) equity			
Employee benefits	**c, g**	(4.4)	(4.5)
Share-based payments	**h**	(0.1)	(0.1)
Property and equipment	**i**	(20.9)	(19.3)
Banner development costs	**k**	36.8	31.9
Impairment of assets	**l**	(1.6)	(1.7)
Sale and leaseback transactions	**m**	12.1	13.2
		21.9	19.5
Total of equity as per IFRS		598.3	529.1

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions applied in the conversion from Canadian GAAP to IFRS.

IFRS Exemption Options

a) Business combinations – IFRS 3, Business Combinations, may be applied retrospectively or prospectively. The retrospective basis requires 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 has not restated its business acquisitions prior to the transition date.

This results for goodwill arising from acquisitions prior to February 28, 2010, after an impairment test, to keep the amount recorded under previous GAAP as deemed cost in the IFRS opening consolidated statement of financial position.

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

33. Explanation of transition to IFRS *(continued)*

IFRS Exemption Options *(continued)*

c) 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 reserves in equity. Retrospective application of the corridor approach for recognition of actuarial gains and losses in accordance with IAS 19 would have required the Corporation to determine actuarial gains and losses from the date the benefit plans were established. The Corporation decided to use this exemption and therefore has recognized all cumulative actuarial gains and losses at the date of transition. Cumulative actuarial losses included in the accrued benefit asset under Canadian GAAP totalling $1.7 million as at February 28, 2010 have been reclassified to deficit in the opening consolidated statement of financial position.

d) Share-based payments – 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.

e) Cumulative translation differences – Retrospective application of IFRS would have required 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 net foreign exchange gains totalling $80.1 million as at February 28, 2010, which have been reclassified to deficit at the transition date.

IFRS mandatory Exception

Set forth below is the IFRS 1 applicable exception applied in the conversion from Canadian GAAP to IFRS.

f) Estimates - Hindsight shall not be used to create or revise estimates. The estimates previously made by the Corporation under Canadian GAAP were not revised for application of IFRS except where doing so was necessary in order to reflect any difference in accounting policies.

33. Explanation of transition to IFRS *(continued)*

Changes in accounting policies

Here are the major changes in accounting policies that have a material impact on the Corporation's consolidated fìnancial statements:

g) 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 are recognized to deficit in the opening consolidated statement of financial position. The past service costs vested totalling $3.3 million as at February 28, 2010 that were included in the accrued benefit assets under Canadian GAAP have therefore been reclassified to deficit in the opening consolidated statement of financial position.

IAS 19, Employee Benefits, allows certain actuarial gains and losses to be either deferred and amortized subject to the corridor approach, immediately recognized through the consolidated profit or loss or reserve in equity. The Corporation has recognized its actuarial gains and losses immediately through reserve in equity.

h) Share-based payments: Under Canadian GAAP, the Corporation used to consider gradually vested stock options rights as a single award and also recognized forfeitures of awards as they occurred. Moreover, the stock appreciation rights were recorded to the intrinsic value.

Under IFRS, each stock options tranche is considered as a separate award. While, the stock appreciation rights are recorded at fair value. The share-based payments expense for stock options and stock appreciation rights are recognized over the expected term of each vested tranche. An estimate is required for the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Corporation has adjusted its expense for share-based payments for stock options and stock appreciation rights to reflect these differences.

33. Explanation of transition to IFRS *(continued)*

Changes in accounting policies *(continued)*

i) Property and equipment: Under IFRS, after initial recognition, it is possible to measure property and equipment using the cost model or the revaluation model. The revaluation model is not allowed under Canadian GAAP. The Corporation continues 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 are amortized separately under IFRS for its buildings. The carrying value of these properties calculated according to IFRS is lower than the one calculated under Canadian GAAP by $29.3 million as at February 26, 2011 and $27.0 million as at February 28, 2010 in the Corporation's consolidated statement of financial position.

The total effect on the amortization by component is an increase of the amortization expense by $2.5 million for the fiscal year ended February 26, 2011 in the Corporation's consolidated statement of income.

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

Under IFRS, investment property may be valued under the cost or fair value model. The buildings affected by this difference were recorded using the cost model under Canadian GAAP. The Corporation continues to use the cost model.

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

Under IFRS, incentives paid to franchisees are considered as banner development costs to better reflect their economic substance and are amortized to the consolidated profit or loss included in depreciation and amortization over their estimated useful life of 25 years. This resulted in an increase of intangible assets of $46.2 million as at February 26, 2011 and $40.0 million as at February 28, 2010 in the consolidated statement of financial position of the Corporation.

This also resulted in a decrease of the amortization expense by $6.2 million for the fiscal year ended February 26, 2011 in the Corporation's consolidated statement of income.

Under Canadian GAAP, incentives paid to franchisees have been presented in other long-term assets. Under IFRS, banner development costs have to be presented in intangible assets in the consolidated statements of financial position.

33. Explanation of transition to IFRS *(continued)*

Changes in accounting policies *(continued)*

l) Impairment of assets: Canadian GAAP uses a two-step approach to impairment testing of the depreciable assets: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; then if this first step is not conclusive measuring any impairment by comparing asset carrying values with fair values. IAS 36, Impairment of Assets, uses a one-step approach to test 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-down where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis.

Unlike Canadian GAAP, which does not allow reversals, IFRS also requires the reversal of an impairment loss, with an exception 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).

Also, under Canadian GAAP, impairment test of goodwill is done by reporting unit. Under IAS 36, impairment test is performed at the cash generating unit level. A cash generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The Corporation has identified its cash generating units and determined that this change does 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 transition to IFRS if indicators of impairment exist, except for goodwill where a test is mandatory when the exemption option for business combinations is applied. As a result at the transaction date, investment property was reduced by $2.3 million in the Corporation's opening consolidated statement of financial position.

m) 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 that sale is deferred and recorded in the consolidated profit or loss over the term 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 is recognized immediately.

In its transitional consolidated statement of financial position, the Corporation had, 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 have been reduced by $16.6 million and trade and other payables have been reduced by $1.5 million in the Corporation's opening consolidated statement of financial position.

33. Explanation of transition to IFRS *(continued)*

Changes in accounting policies *(continued)*

n) Deferred tax: The above changes increased (decreased) deferred tax as follows:

	Notes	As at February 26, 2011	As at February 28, 2010
(in millions of Canadian dollars)		$	$
Property and equipment	i	7.8	7.3
Investment property	l	0.6	0.6
Banner development costs	k	(9.4)	(8.1)
Employee benefits	c, g	1.8	1.7
Sale and leaseback transactions	m	(4.5)	(4.9)
Intersegment eliminations included in deferred taxes		6.9	5.0
Increase in deferred tax		3.2	1.6

Intersegment eliminations included in deferred taxes: Under Canadian GAAP, intersegment eliminations of income taxes are included in income taxes payable. Under IFRS, intersegment eliminations of income taxes are included in deferred tax. Consequently, the deferred tax assets and income taxes payable have been increased by $5.0 million in the Corporation's opening statement of financial position.

o) Deferred tax: Under Canadian GAAP, deferred taxes are split between current and non-current components on the basis of either the underlying asset or liability or the expected reversal of items not related to an asset or liability. Under IFRS, all deferred tax assets and liabilities are classified as non-current. At the transition date, an amount of $3.8 million of current deferred tax assets have been reclassified in non-current deferred income tax in the Corporation's opening consolidated statement of financial position.

34. Event after the reporting period

In accordance with the provisions of Rule 144 under the Securities Act of 1933, the Corporation filed on April 17, 2012 a notice confirming its intent to dispose up to 56,000,000 of its 234,401,162 common shares of Rite Aid. On April 20, 2012, the Corporation completed the sale of these 56,000,000 common shares. These shares were sold at an average price of US$1.51 per share for a total proceed of $82.8 million (US$83.6 million), net of related costs. Consequently, a gain of $82.8 million will be recorded in the Corporation’s consolidated statement of income during the first quarter of fiscal year 2013 since the carrying value of the investment in Rite Aid was previously written-off.

34. Event after the reporting period *(continued)*

The sale of these shares brings the Corporation's interest in Rite Aid's outstanding common shares down to 19.85% and, as stipulated in the stockholder agreement between the Corporation and Rite Aid, the number of the Corporation's representatives on Rite Aid's Board of Directors is reduced from 3 to 2 members and the Corporation loses its representation on the Executive Committee of Rite Aid. The Corporation concluded that this generates a loss of significant influence of the Corporation over Rite Aid and, according to the IFRS changes the accounting of the investment in Rite Aid. This investment, which was previously considered as an investment in an associate and accounted for under the equity method, will now be considered as an available-for-sale investment and will be accounted for at fair value. This change will generate a non-cash gain of $265.2 million (US$267.6 million) in the Corporation's consolidated statement of income in the first quarter of fiscal year 2013, which is the fair value of the 178,401,162 common shares that the Corporation still owns as of the date of its loss of significant influence. Subsequent changes in the fair value of the investment in Rite Aid will be accounted for in the Corporation's consolidated statement of comprehensive income.

General information

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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 10, 2012 at 9:30 a.m. at the corporate headquarters of the Corporation, 551 Bériault Street, Longueuil, Québec.

Annual Information Form

The annual information form for the year ended March 3, 2012 is available upon request. To order, please contact the Corporate Secretary of the Corporation.

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

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