management's discussion and analysis

The following is a discussion of the consolidated financial condition and results of operations of Shoppers Drug Mart Corporation ("Shoppers" or the "Company") and its predecessor for periods indicated and of certain factors that the Company believes may affect its prospective financial condition, cash flows and results of operations. The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company and the notes thereto for the 52-week period ended December 29, 2001. The fiscal year of the Company consists of a 52 or 53 week period ending on the Saturday closest to December 31.

OVERVIEW

Shoppers is the largest drug store group in Canada based on number of stores and system sales. Shoppers is the only national drug store group, with the number one market share position in prescription sales in eight out of ten provinces and the number one or two market share position in most of Canada's major metropolitan areas. As at December 29, 2001, there were 827 Shoppers Drug Mart/Pharmaprix retail drug stores owned and operated under licence by Shoppers Associates.

In addition, Shoppers owns and operates 37 Shoppers Home Health Care® stores, making it the largest Canadian retailer of home health care products and services.

The Company's business strategy is designed to drive system sales growth, maximize gross margin dollars, leverage cost reduction opportunities and build customer loyalty, thereby generating increased revenue and profitability.

The following table presents a summary of certain selected operating data and consolidated financial information for the Company and its store network. Comparative financial information presented for the 52-week period ended December 30, 2000 is cumulative, representing the combined results of the Company and those of its predecessor for the period. (See note 1 to the consolidated financial statements of the Company.)

($000's)	**Fiscal 2001**	Fiscal 2000	$ Change	% Change
System sales	**4,996,360**	4,535,026	461,334	10.2%
Revenue	**3,634,567**	3,188,148	446,419	14.0%
EBITDA[1]	**436,591**	389,544	47,047	12.1%
Net earnings	**22,913**	16,097	6,816	42.3%

[1] Earnings before interest, taxes, depreciation and amortization and excluding the staff restructuring charge of $19,500 in fiscal 2001.

System sales represents the combined sales to external customers of the stores owned by the Associates and of the stores owned by the Company. System sales, other than sales of the stores owned by the Company, do not form part of the Company's revenue. (See note 1 to the consolidated financial statements of the Company.)

The Company earns revenue from selling products and charging for services rendered to its network of Associate-owned drug stores and from sales at its Shoppers Home Health Care® stores. These activities are described below.

Distribution

A significant portion of the Company's revenue is generated from the sale of goods to Associate-owned drug stores. For fiscal 2001, in excess of 82% of all merchandise sold in Associate-owned drug stores was purchased from the Company's three distribution centres, compared to approximately 80% during fiscal 2000.

Associate Operations

The Company also earns revenue from its licensing arrangements with Associates. An Associate is a pharmacist and the owner of a corporation that is licensed to operate a retail drug store at a specific location using the Company's trademarks. Under the licensing arrangement, the Company provides the capital to enable Associates to operate Shoppers Drug Mart/Pharmaprix stores without any initial investment. The Company also provides a package of services to facilitate the growth and profitability of each Associate's business. These services include the use of trademarks, operational support, marketing and advertising, purchasing and distribution, information technology and accounting. In return for providing these and other services, Associates pay fees to the Company. Fixtures, leasehold improvements and equipment are purchased by the Company and leased to Associates over three, five and ten-year periods, with title retained by the Company. The Company also provides its Associates with assistance in meeting their working capital and long-term financing requirements through the provision of loans and loan guarantees. (See notes 4 and 15 to the consolidated financial statements of the Company.)

Under the licensing arrangement, Shoppers receives a substantial share of Associate store profits. The Company's share of Associate store profits is reflective of its investment in, and commitment to, the operations of the Associates' stores. The Company collects its share of Associate store profits throughout the year by way of a service fee that is based on estimated store profitability. Service fees are adjusted based on the actual year-end results of Associate stores, which have fiscal year-ends at varying dates throughout the year.

Shoppers operates in Quebec under the Pharmaprix® trade name. Under Quebec law, profits generated from the prescription area or dispensary may only be earned by a pharmacist or a corporation controlled by a pharmacist. As a result of these restrictions, the licence agreement used for Quebec Associates differs from the Associate agreement used in other provinces. Pharmaprix stores benefit from the same infrastructure and support provided to all Shoppers Associates.

Shoppers Home Health Care®

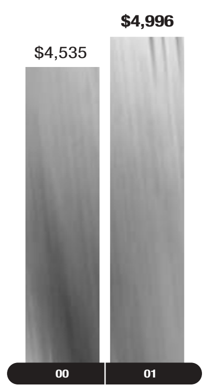
The Company earns revenue from its 37 Shoppers Home Health Care® stores. These stores sell medical equipment and devices to institutional and retail customers.

OPERATING PERFORMANCE

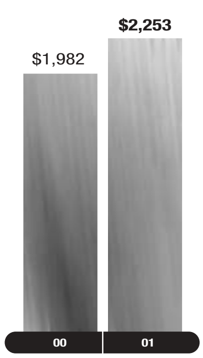
The following provides an overview of the Company's operating performance in fiscal 2001:

- System sales of approximately $5 billion, an increase of 10.2%.
- Same-store sales growth of 9.2%.
- EBITDA of $437 million, excluding the impact of a staff restructuring charge of $20 million, an increase of 12.1%.
- EBITDA margin, excluding the impact of the $20 million staff restructuring charge, improved to 8.74% from 8.59% in fiscal 2000.
- Completed a $100 million annual capital expenditure program, which included the opening of 41 new drug stores.
- Total drug store selling square footage increased by 7.1% to approximately 5.5 million square feet.
- Drug store sales per square foot increased to $920 from $879 in fiscal 2000.
- Introduced new senior management and completed a staff restructuring of the corporate office.
- Completed a $540 million initial public offering and repaid $591 million of long-term debt, reducing the Company's debt to equity ratio to 0.78:1 from 1.88:1 at the end of the previous fiscal year.

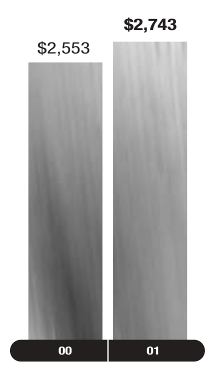
System sales
(millions)



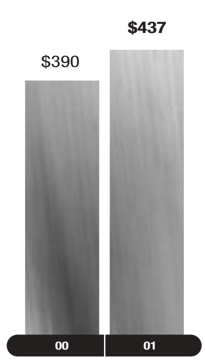
Prescription sales
(millions)



Front store sales
(millions)



EBITDA
(millions)



RESULTS OF OPERATIONS

The following table presents a summary of certain selected operating data and consolidated financial information for the Company and its store network. Comparative financial information presented for the 52-week period ended December 30, 2000 is cumulative, representing the combined results of the Company and those of its predecessor for the period. (See note 1 to the consolidated financial statements of the Company.)

($000's)	**Fiscal 2001**	Fiscal 2000	$ Change	% Change
System sales	**4,996,360**	4,535,026	461,334	10.2%
Revenue	**3,634,567**	3,188,148	446,419	14.0%
Cost of goods sold and other operating expenses	**3,217,476** [(1)]	2,798,604	(418,872)	(15.0%)
Depreciation and amortization	**72,967**	71,671	(1,296)	(1.8%)
Operating income	**344,124**	317,873	26,251	8.3%
Interest expense	**193,385** [(2)]	180,385	(13,000)	(7.2%)
Earnings before income taxes and goodwill amortization	**150,739**	137,488	13,251	9.6%
Income taxes	**74,538**	71,048	(3,490)	(4.9%)
Earnings before goodwill amortization	**76,201**	66,440	9,761	14.7%
Goodwill amortization	**53,288**	50,343	(2,945)	(5.8%)
Net earnings	**22,913**	16,097	6,816	42.3%
EBITDA	**436,591** [(3)]	389,544	47,047	12.1%

[(1)] Includes a staff restructuring charge of $19,500.

[(2)] Includes a non-cash charge of $29,324 in respect of a write-off of deferred financing charges.

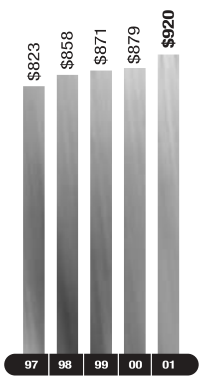
[(3)] Excluding the staff restructuring charge of $19,500.

System Sales

System sales for fiscal 2001 were $4.996 billion compared to $4.535 billion for fiscal 2000, an increase of $461 million or 10.2%, with strong growth in all regions across the country. On a same-store basis, system sales increased by 9.2% during fiscal 2001.

Prescription sales were $2.253 billion for fiscal 2001 compared to $1.982 billion for fiscal 2000, an increase of $271 million or 13.7%. On a same-store basis, prescription sales increased by 13.4% during fiscal 2001. During fiscal 2001, prescription sales accounted for 45.1% of the Company's system sales mix compared to 43.7% in fiscal 2000.

Drug store sales per square foot



Front store sales were $2.743 billion for fiscal 2001 compared to $2.553 billion for fiscal 2000, an increase of $190 million or 7.4%. On a same-store basis, front store sales increased by 5.9% during fiscal 2001. All front store categories, excluding tobacco products, experienced sales increases during the year. Fiscal 2001 was the first full year that the Company's Shoppers Optimum™ loyalty card program was in existence and this had a positive impact on sales gains in the front store, particularly in the first half. This highly successful and valued program now has in excess of six million members.

Drug store sales per square foot were $920 in fiscal 2001 compared to $879 in fiscal 2000, an increase of 4.7%.

Revenue

Revenue was $3.635 billion for fiscal 2001 compared to $3.188 billion for fiscal 2000, an increase of $447 million or 14.0%. This increase is largely attributable to higher distribution centre revenue as a result of increased shipments in all product categories. The increase in shipments is a reflection of the year-over-year growth in system sales and an increase in the percentage of total shipments to Associate-owned stores originating from the Company's distribution centres. A portion of the increase in revenue can also be attributed to higher fees collected from Associates, a reflection of increased sales and profitability at store level.

Cost of Goods Sold and Other Operating Expenses

Cost of goods sold is comprised of the cost of goods sold through the Company's distribution centres and Shoppers Home Health Care® stores. Other operating expenses include corporate selling, general and administrative expenses and operating expenses at the Company's distribution centres and the Shoppers Home Health Care® stores. Total cost of goods sold and operating expenses were $3.217 billion for fiscal 2001 compared to $2.799 billion for fiscal 2000, an increase of $418 million or 15.0%. This increase can be largely attributed to the increased level of shipments from the Company's distribution centres to the Associate-owned drug stores and a third quarter staff restructuring charge of approximately $20 million related to the streamlining of the Company's corporate office. Other operating expenses, excluding the impact of the staff restructuring charge, amounted to 7.6% of system sales during fiscal 2001 compared to 8.3% in fiscal 2000. This improvement was the result of the Company's ability to further lever the fixed cost components of its operations. In addition, a portion of this improvement can be attributed to the fact that the Company incurred certain one-time costs in fiscal 2000 in conjunction with the launch of the Shoppers Optimum™ program.

Depreciation and Amortization

Depreciation and amortization of capital assets was $73 million for fiscal 2001 compared to $72 million for fiscal 2000, an increase of $1 million.

Operating Income

Operating income, excluding the impact of the staff restructuring charge, was $364 million for fiscal 2001 compared to $318 million for fiscal 2000, an increase of $46 million or 14.4%. As a percentage of system sales, operating margin, excluding the impact of the restructuring charge, improved to 7.28% during fiscal 2001 from 7.01% in fiscal 2000. The Company's EBITDA margin (EBITDA divided by system sales), excluding the impact of the staff restructuring charge, was 8.74% in fiscal 2001 compared to 8.59% in fiscal 2000.

Interest Expense

Interest expense was $193 million for fiscal 2001 compared to $180 million for fiscal 2000, an increase of $13 million or 7.2%. Fiscal 2001 interest expense includes a non-cash charge of $29 million in respect of a write-off of deferred financing costs related to the repayment of the Company's senior subordinated debt facility. (See notes 9 and 17 to the consolidated financial statements of the Company.) Excluding this write-off, interest expense for fiscal 2001 would have been $164 million, an 8.9% decrease compared to fiscal 2000. This decrease can be attributed to lower average borrowing levels and lower effective interest rates in fiscal 2001 compared to fiscal 2000, combined with the impact of repaying the senior subordinated debt facility late in fiscal 2001. These savings were partially offset by the fact that the first 33 days of fiscal 2000 did not include any interest costs in respect of financing the acquisition of Shoppers Drug Mart Inc. ("SDMI"), which was completed on February 4, 2000. (See note 1 to the consolidated financial statements of the Company.)

Interest expense includes amortization of deferred financing costs of $11 million in fiscal 2001 compared to $10 million in fiscal 2000. Interest expense also includes amortization of deferred foreign currency translation adjustments related to the Company's U.S. dollar denominated borrowings. For fiscal 2001, this amount was $5 million compared to $2 million for fiscal 2000. (See note 17 to the consolidated financial statements of the Company.)

Income Taxes

The Company's effective income tax rate for fiscal 2001 was approximately 49.4% compared to a rate of 51.7% for fiscal 2000. The decrease in the effective rate can be primarily attributed to a reduction in statutory rates in various jurisdictions.

Goodwill Amortization

Goodwill amortization was $53 million for fiscal 2001 compared to $50 million for fiscal 2000, an increase of $3 million or 5.8%. Goodwill amortization is principally related to the goodwill arising from the acquisition of SDMI on February 4, 2000. The increase in goodwill amortization during fiscal 2001 can be attributed to the timing of the purchase of SDMI.

Net Earnings

Net earnings for fiscal 2001 were $23 million compared to $16 million for fiscal 2000. On a fully diluted basis, net earnings for fiscal 2001 were $0.12 per share. Comparative per share earnings data for the prior fiscal year is not applicable. Excluding goodwill amortization of $53 million and the impact of the third quarter staff restructuring charge of $20 million, net earnings for fiscal 2001 were $88 million, resulting in fully diluted earnings of $0.48 per share. On a pro-forma basis, incorporating these adjustments and assuming the equity issue that closed on November 21, 2001 had been completed at the beginning of the fiscal year, the Company estimates that net earnings for fiscal 2001 would have been $140 million, resulting in fully diluted earnings of $0.66 per share.

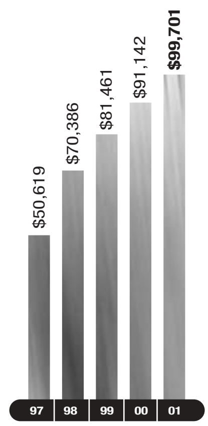
LIQUIDITY AND CAPITAL RESOURCES

The Company has two principal sources of liquidity: (i) cash provided by operating activities; and (ii) cash available from a committed $350 million revolving credit facility under its senior credit facility. At December 29, 2001, $2 million of the $350 million revolving credit facility was utilized, all in respect of letters of credit and trade finance guarantees. At December 30, 2000, $8 million of this facility was utilized, including drawings of $4 million in respect of letters of credit and trade finance guarantees. (See note 9 to the consolidated financial statements of the Company.)

Shoppers' operating and investing activities are typically financed by cash flow generated from its operations. For fiscal 2001, operating activities net of investing activities generated cash flow of $125 million compared to $202 million for fiscal 2000. The comparative figures for fiscal 2000 exclude the impact of the February 4, 2000 acquisition of SDMI, which was financed with new long-term debt and the issuance of common shares. The $77 million decrease is primarily attributable to the working capital impact of the Company's Y2K planning initiatives. Towards the end of fiscal 1999, the Company invested in additional distribution centre inventory in order to ensure that sufficient product levels would be available in the event of any Y2K related supply chain disruptions. A significant portion of this inventory was paid for prior to the 1999 fiscal year-end. Accordingly, during the first quarter of fiscal 2000, the Y2K working capital investment reversed.

Capital expenditures during fiscal 2001 were $100 million compared to $91 million for fiscal 2000. The majority of this capital was invested in the Company's store network. During fiscal 2001, 41 drug stores and one Shoppers Home Health Care® store were opened or acquired (2000 – 17 drug stores opened or acquired) and 11 drug stores and one Shoppers Home Health Care® store were closed (2000 – ten drug stores and one Shoppers Home Health Care® store closed). During fiscal 2001, 23 drug stores were relocated (2000 – 25 drug stores relocated) and 76 drug stores were renovated or expanded (2000 – 85 drug stores renovated or expanded).

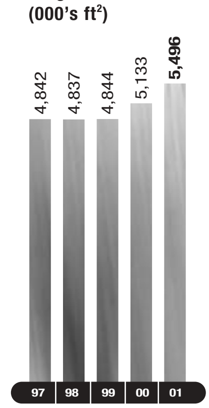
Capital expenditures (000's)



The following table provides a summary of the Company's store network, and investment therein, for the periods indicated.

	Fiscal 2001		Fiscal 2000	
	Drug Stores	**Total Stores**	Drug Stores	Total Stores
Store count – beginning of year	**797**	**834**	790	828
Stores opened	**41**	**42**	17	17
Stores closed	**11**	**12**	10	11
Store count – end of year	**827**	**864**	797	834
Stores relocated	**23**	**23**	25	25
Stores renovated	**76**	**76**	85	85

Total selling square footage – drug stores (000's ft²)



At the end of fiscal 2001, there were 864 stores in the Company's system (2000 – 834 stores), comprised of 827 drug stores (2000 – 797 drug stores) and 37 Shoppers Home Health Care® stores (2000 – 37 Shoppers Home Health Care® stores). At the end of fiscal 2001, total drug store selling square footage was 5,496,000 square feet (2000 – 5,133,000 square feet).

FINANCING ACTIVITIES

During fiscal 2001, the Company raised net proceeds of approximately $510 million through the sale of 30 million common shares at an issue price of $18.00 per share. The share offering closed on November 21, 2001. These funds, along with additional cash flow generated from operations, were used to repay $591 million of long-term debt. Of this amount, $526 million was used to completely repay the Company's senior subordinated loan, with the balance of $65 million being applied to reduce amounts outstanding under the Company's senior credit facility. Total long-term debt at December 29, 2001 was $1.110 billion compared to $1.662 billion at December 30, 2000. (See note 9 to the consolidated financial statements of the Company.) At December 29, 2001, the Company's long-term debt to equity ratio was 0.77:1 compared to 1.85:1 at the end of fiscal 2000.

($000's)	**Fiscal 2001**	Fiscal 2000
Senior debt	**1,109,545**	1,136,008
Senior subordinated debt	**—**	525,969
Long-term debt	**1,109,545**	1,661,977
Shareholders' equity	**1,434,331**	899,949
Total capitalization	**2,543,876**	2,561,926
Long-term debt:Equity	**0.77:1**	1.85:1
Long-term debt:EBITDA	**2.54:1**	4.27:1
EBITDA:Cash interest expense	**2.95:1**	2.31:1

Fiscal 2001 EBITDA excludes the $19,500 staff restructuring charge.

FUTURE LIQUIDITY

Shoppers believes that its current credit facilities, together with cash generated from operating activities, will be sufficient to fund the Company's operations, investing activities and commitments for the foreseeable future.

RISKS AND RISK MANAGEMENT

Regulatory Environment and Factors Affecting the Sale of Prescription Drugs

The Company's operations are subject to numerous federal, provincial, territorial and local laws and regulations governing the approval of new drugs and the packaging, disposal, sale, marketing, advertising, handling, distribution and dispensing of pharmaceuticals. Non-compliance with or amendments to any such laws or regulations, particularly those that provide for the licensing and conduct of pharmacists, the regulation and ownership of pharmacies and the advertising of pharmacies and prescription services, could adversely affect the Company, as it relies on prescription drug sales for a significant and growing portion of its revenues and profits. Sales of prescription drugs may be affected by changes in the health care industry, including changes to programs providing for reimbursement of the cost of prescription drugs by third-party payors, such as government and private sources. Federal or provincial legislative changes affecting prescription drug coverage, allowable mark-ups to the cost of a drug or to professional or dispensing fees could also affect the Company's sales and profitability.

While certain provincial governments have implemented a number of pharmacy services cost control measures over the past few years, there has not been any recent expansion of these initiatives. In fact, the Company believes that there has been a shift in government interest toward an expanded role for pharmacy services in the delivery of health care services to Canadians. The Company is an active proponent of this position and believes that properly managed pharmacy services are part of the solution to controlling rising health care costs.

Certain third-party payors, such as corporate employers, continue to seek ways to manage the cost of their drug programs. While traditional cost control mechanisms such as the capping of dispensing fees and the sharing of costs with employees are still in use, the Company believes that corporate employers are becoming more aware of the beneficial role that pharmacy can play in improving the health of their employees. The Company's approach to this issue is to demonstrate to employers that properly managed pharmacy services result in a workforce that is better educated about the importance of disease management and health and wellness, which provides savings to employers in areas such as absenteeism and long-term disability, while increasing productivity.

Ability to Attract and Retain Pharmacists

The Company is dependent on its ability to attract, motivate and retain pharmacists for the stores in its network. Demographic trends and increased competition have led to a shortage of pharmacists in certain markets in Canada. The inability to attract and retain pharmacists could adversely affect the Company's business, financial conditions and results of operations.

The Company believes that its Associate Concept provides it with a competitive advantage when recruiting pharmacists. In particular, pharmacy school graduates are attracted to Shoppers because its Associate Concept enables pharmacists to own their own businesses while benefitting from the training and capital provided by the Company. Shoppers has also implemented an aggressive recruitment strategy to increase the number of pharmacists hired each year. Moreover, the Associate-owned stores in the Company's network will employ more pharmacy students and interns to ensure a source of supply of new graduates in future years. Results of a recent pharmacist survey show that Shoppers has made significant progress in this area. During 2002, the Company will look at opportunities to further enhance its retention programs for existing pharmacists.

Competition

The Company faces competition from many retailers in the front store merchandise and non-prescription drug categories. The Company's competitors in the retail pharmacy business include independent operators, banner groups, retail chains, mass merchandisers and larger supermarket chains with combination food/drug retail operations. These competitors may reduce prices in front store merchandise or reduce dispensing fees to increase market share, which could have an adverse impact on the Company's earnings.

The Company believes that it is well positioned to compete against drug store chains, as well as supermarkets, mass merchandisers and independent drug stores, by concentrating on providing high levels of professional service and focussing on improving patient self-management and outcomes. While mass merchandisers compete aggressively on price, the Company believes that consumers will pay for its value-added pharmacy services such as patient counselling and disease management clinics, and will be attracted by its convenient locations, extended hours of service and broad selection of health, beauty and everyday household essentials.

Exposure to Interest Rate and Currency Fluctuations

The Company is exposed to interest rates and currency exchange rates by virtue of its borrowings under its senior credit facility. (See note 9 to the consolidated financial statements of the Company.) Increases in interest rates and increases in the value of the U.S. dollar in relation to the Canadian dollar will have an adverse effect on the earnings of the Company.

The Company uses interest rate derivatives to manage its exposure to fluctuations in interest rates. The Company also enters into currency derivatives to hedge a portion of its U.S. dollar denominated debt. (See note 2 to the consolidated financial statements of the Company.)

As at December 29, 2001, the Company had entered into interest rate derivative agreements converting an aggregate notional principal amount of $350 million of floating rate debt into fixed rate debt. The fixed rates payable by the Company under these agreements range from 6.07% to 6.10%. These agreements mature on April 14, 2005. (See note 19 to the consolidated financial statements of the Company.)

As at December 29, 2001, the Company had entered into currency derivative agreements to exchange a notional principal amount of U.S. $243 million of debt for Canadian dollar denominated debt. These agreements mature on June 16, 2003. (See notes 4 and 19 to the consolidated financial statements of the Company.)

Changes in the underlying interest rates and exchange rates of the Company's interest rate and currency derivative agreements will result in market gains and losses. Furthermore, the Company may be exposed to losses should any counterparty to its derivative agreements fail to fulfill its obligations. The Company has sought to minimize counterparty risk by transacting with counterparties that are large international financial institutions.

Property and Casualty Exposures

Certain property and casualty risks and exposures are inherent in the operation of the Company's business. The Company has a number of integrated risk management programs in place, which are designed to reduce its exposures and mitigate any losses. These include self-insuring certain exposures to levels appropriate and customary for a company the size of Shoppers and purchasing excess insurance coverage from financially stable third-party insurance companies to provide adequate coverage for all normal insurable commercial risks.

OUTLOOK

The Company believes that it is well positioned to capitalize on the projected growth in the retail drug store industry given its strong brand recognition, focus on pharmacy and health care services, convenient locations and the dedication of its Associate-owners. The demographic trends of the aging Canadian population are expected to fuel continued strong growth in the pharmacy category. The Company intends to maintain its leadership in pharmacy by investing in technology and, more importantly, in the recruitment and retention of pharmacists. The Company believes that its primary focus on pharmacy products and services will continue to drive customer traffic and provide profitable growth in its front store categories. The Company expects that front store sales growth will also be driven by improved merchandising, an increased focus on operational excellence and through the introduction of new products and services.

Due to the fragmented nature of the Canadian retail drug store industry, Shoppers believes that it is well positioned to capitalize on consolidation opportunities, given its strong cash flow and significantly improved balance sheet and capital structure. The Company also intends to continue making significant investments in its store base, particularly by replacing its smaller format stores with larger stores and by opening new stores. The Company plans to allocate $130 million to capital expenditures in fiscal 2002, which will be funded entirely from internally generated cash flow.

ACCOUNTING POLICY AND DISCLOSURE CHANGES SUBSEQUENT TO 2001

In August 2001, the Canadian Institute of Chartered Accountants (CICA) approved new accounting standards for: (i) business combinations; and (ii) goodwill and other intangible assets. Goodwill and other intangible assets with an indefinite life will no longer be amortized, but will be tested for impairment at least on an annual basis. Intangible assets with definite lives will continue to be amortized over their useful lives. The Company will evaluate its existing intangible assets that were acquired in a prior business combination and make any necessary reclassification in order to conform to the new criteria for recognition apart from goodwill. The Company will apply the new accounting standards beginning January 2002, at which time the Company will discontinue amortizing its goodwill and indefinite life intangible assets. At December 29, 2001, the Company reported $1.956 billion in goodwill and indefinite life intangible assets on its balance sheet. During fiscal 2001, the Company recorded $53 million of goodwill amortization, net of an income tax recovery of less than $1 million. The Company does not expect to record any goodwill or intangible asset impairment charges for the foreseeable future.

In November 2001, the CICA approved new accounting standards for foreign currency translation. The new standards eliminate the deferral and amortization method of accounting for unrealized translation gains and losses on non-current monetary assets and liabilities. The new standards also require disclosure of exchange gains and losses included in net income. The Company will apply the new accounting standards beginning January 2002, at which time the Company will be required to retroactively restate its fiscal 2000 and fiscal 2001 results of operations to recognize unrealized foreign exchange losses related to its U.S. dollar denominated long-term debt. The restatement will result in an after-tax charge to earnings of $28 million and $16 million for fiscal 2000 and fiscal 2001, respectively.

In November 2001, the CICA approved new accounting standards for stock-based compensation. The new standards require that companies include in compensation expense certain types of stock-based compensation awards that are granted to employees and others. The new standards are applied to awards granted on or after the date of adoption and to certain forms of awards outstanding at the date of adoption. The Company will apply the new accounting standards beginning January 2002 and does not expect that the new standards will have a material impact on the financial results of the Company.

In November 2001, the CICA approved new accounting standards for hedging relationships. The new standards provide for expanded criteria for hedge accounting, covering such matters as documentation, designation and the concept of effectiveness. The Company will apply the new accounting standards beginning January 2003. The Company is in the process of evaluating the impact of these new guidelines on its financial statements.

NON-GAAP EARNINGS REFERENCES

The foregoing contains references to non-GAAP earnings measures, such as EBITDA and pro-forma earnings. EBITDA means earnings before interest, taxes, depreciation and amortization. Pro-forma earnings are calculated by adjusting actual earnings to give effect to events occurring during the fiscal period as if they had occurred at the beginning of the fiscal period. Non-GAAP earnings measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers.

FORWARD-LOOKING STATEMENTS

The foregoing contains forward-looking statements related to expected future events and financial results and operating results of the Company that involve risks and uncertainties. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including market and general economic conditions and the risks and uncertainties discussed above and in other disclosure materials filed from time to time by the Company with Canadian securities regulatory authorities.