TLC

LASER EYE CENTERS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION & AUDITED FINANCIAL STATEMENTS UNDER CANADIAN GAAP

Fiscal year 2001

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Consolidated Financial Statements and the related notes thereto. Unless the context indicates or requires otherwise, references in this MD&A to the "Company" or "TLC" shall mean TLC Laser Eye Centers Inc. and its subsidiaries. The Company's fiscal year ends on May 31. Therefore, references in this MD&A to a particular fiscal year shall mean the 12 months ended on May 31 in that year. The following discussion is based upon the Company's results under Canadian GAAP. Unless otherwise specified, all dollar amounts are U.S. dollars. See Note 1 to the Consolidated Financial Statements of the Company.

This MD&A contains certain forward looking statements that may be identified by the use of forward looking terminology, such as "may", "will", "expect", "anticipate", "estimate", "plans" or "continue" or the negative thereof or other variations thereon or comparable terminology referring to future events or results. The Company's actual results could differ materially from those anticipated in these forward looking statements. See the Company's reports filed with the Toronto Stock Exchange and the United States Securities and Exchange Commission from time to time for cautionary statements identifying important factors with respect to such forward looking statements that could cause actual results to differ materially from results referred to in such forward looking statements.

Overview

TLC is one of the largest providers of laser vision correction services in North America. TLC owns and manages eye care centers which, together with TLC's network of over 12,500 eye care doctors, provide laser vision correction of common refractive disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. Laser vision correction is an outpatient procedure which is designed to change the curvature of the cornea to reduce or eliminate a patient's reliance on eyeglasses or contact lenses. TLC, which commenced operations in September 1993, currently has 59 eye care centers in 26 states and provinces throughout the United States and Canada. Surgeons performed over 122,800 procedures at the Company's centers during the fiscal 2001.

The Company recognizes revenues at the time services are rendered. Net revenues include only those revenues pertaining to owned laser centers and management fees from managing refractive and secondary care practices. Under the terms of the practice management agreements, the Company provides management, marketing and administrative services to refractive and secondary care practices in return for management fees. Management services revenue is equal to the net revenue of the physician practice, less amounts retained by the physician groups. Management services revenue under the terms of the practice management agreements for laser vision correction procedures are recognized when the services are performed.

Net revenue of the physician's practice represents amounts charged to patients for laser vision correction services net of the impact of applicable patient discounts and related contractual adjustments. Amounts retained by physician groups may include costs for uncollectible amounts from patients, professional contractual costs and miscellaneous administrative charges.

Uncollectible amounts from patients are reviewed and provided for on a regular monthly basis for those amounts due from physicians or patients for which there is a permanent reduced likelihood of collection in whole or in part.

Procedure volumes represent the number of laser vision correction procedures completed for which the amount that the patient has been invoiced for the procedure exceeds a pre-defined company wide per procedure revenue threshold. Procedures may be invoiced under the threshold amounts primarily for promotional or marketing purposes and are not included in the procedure volume numbers reported. By not counting these promotional procedures the net revenue after doctor's compensation per procedure ratio is higher than if these procedures had been included in the procedure volumes.

Operating expenses include all fixed and variable expenses relating to the operation of the Company's businesses. The principal components of operating expenses are marketing costs, wages, surgeon's fees, laser royalty fees and facility leasing costs.

The Company continues to pursue a growth strategy in its core refractive laser vision correction business, which accounts for more than 92% of net revenues. The Company has experienced its first decrease in annual procedure volumes since inception. This decrease is indicative of the uncertainty in the laser vision correction industry which has seen extensive pressure on prices from deep discount providers, the recent bankruptcies of a number of laser vision correction companies and negative publicity in the media concerning competing centers. In addition, being an elective procedure, laser vision correction volumes may have been further depressed by economic conditions in early 2001.

The Company has developed and launched a pilot test of a new revenue model, the TLC Affiliate Center program. Under the program, the Company provides varying levels of resources, support and expertise to established eye care professionals ("ECP") in secondary markets in an effort to grow and develop their current laser vision correction practices. The services provided by TLC can vary from the Company providing support only in building the ECP's network of affiliated optometrists to the Company providing facilities, medical equipment, professional staffing, marketing and administrative support. Revenues from TLC affiliate centers vary based on the level of services provided by the Company. The TLC Affiliate Centers program is expected to enable the Company to expand its presence in secondary markets while significantly reducing the operational and capital funding normally required to support a typical corporate laser center model.

2001 *(in thousands)*	**Refractive**	**Other**	**2001 Total**
Revenues and physician costs:			
Net revenues	$ 161,219	$ 12,787	$ 174,006
Doctor compensation	15,538	--	15,538
Net revenue after doctor compensation	$ 145,681	$ 12,787	$ 158,468
Expenses			
Operating	134,507	15,168	149,675
Interest and other	(2,385)	(158)	(2,543)
Depreciation of capital assets and assets under capital lease	13,675	1,375	15,050
Amortization of intangibles	10,703	1,840	12,543
Restructuring and other charges	6,433	12,642	19,075
	162,933	30,867	193,800
Income (loss) from operations	(17,252)	(18,080)	(35,332)
Income taxes	(1,779)	(460)	(2,239)
Non-controlling interest	(370)	(15)	(385)
Net income (loss)	$ (19,401)	$(18,555)	$ (37,956)
Total assets	$ 244,090	$ 4,083	$ 248,173
Total capital and intangible expenditures	$ 36,296	$ 140	$ 36,436

2000 *(in thousands)*	**Refractive**	**Other**	**2000 Total**
Revenues and physician costs:			
Net revenues	$ 190,233	$ 10,990	$ 201,223
Doctor compensation	17,333	2	17,335
Net revenue after doctor compensation	$ 172,900	$	$ 183,888
Expenses			
Operating	153,729	12,477	166,206
Interest and other	(4,574)	82	(4,492)
Depreciation of capital assets and assets under capital lease	12,886	1,406	14,292
Amortization of intangibles	6,363	1,033	7,396
	168,404	14,998	183,402
Income (loss) from operations	4,496	(4,010)	486
Income taxes	(3,141)	(313)	(3,454)
Non-controlling interest	(2,443)	(563)	(3,006)
Net income (loss)	$ (1,088)	$ (4,886)	$ (5,974)
Total assets	$ 255,106	$ 39,085	$ 294,191
Total capital and intangible expenditures	$ 65,941	$ 8,477	$ 74,418

RESULTS OF OPERATIONS

Year ended May 31, 2001 compared to Year ended May 31, 2000

Net revenues for fiscal 2001 were $174.0 million, which is a 13.5% decrease over last year's $201.2 million. Approximately 93% of total net revenues were derived from refractive services as compared to 95% in fiscal 2000.

Net revenues from eye care centers for fiscal 2001 year were $161.2 million, which is 15.2% lower than last year's $190.2 million. Approximately 122,800 procedures were performed in fiscal 2001 compared to 134,200 procedures in fiscal 2000. The decrease in procedure volume and the associated reduction of revenue is indicative of the condition of the laser vision correction industry which has experienced uncertainty resulting from a wide range in consumer prices for laser vision correction procedures, the recent bankruptcies of a number of deep discount laser vision correction companies as well as the ongoing safety and effectiveness concerns arising from the lack of long-term follow-up data and negative news stories focusing on patients with unfavourable outcomes from procedures performed at competing centers. The Company maintains its vision to be a premium provider of laser vision correction services in an industry that has faced significant pricing pressures. Due to the pricing pressures in the industry and the lower procedure prices offered pursuant to discounts associated with the Company's Corporate Advantage Program, the Company's net revenue after doctor compensation, per procedure, for fiscal 2001 declined by 8% in comparison to fiscal 2000.

In the final quarter of fiscal 2000 and during fiscal 2001, the Company completed practice management agreements with a number of surgeons resulting in an increase in intangible assets to reflect the value assigned to these agreements. These intangible assets will be amortized over the term of the applicable agreements. These agreements have resulted either directly or indirectly in lower per procedure fees being paid to the applicable surgeons and a corresponding reduction in doctors' compensation to offset the increased amortization costs. The result is an increase to the net revenue after doctors' compensation per procedure ratio.

Operating expenses and doctor compensation from refractive activities decreased to $150.0 million in fiscal 2001 from $171.1 million in fiscal 2000. This decrease is a result of: (i) reduced variable expenses associated with the decrease in the number of laser vision correction procedures performed at existing eye care centers, (ii) significant efforts made by the Company to reduce costs, (iii) significantly reduced costs associated with the Corporate Advantage Program and the third party payor programs, and (iv) reduced corporate costs which are subject to ongoing scrutiny to maintain an effective corporate structure able to support the current levels of business activity. Operating expenses and doctor compensation from refractive activities as a percentage of net refractive revenues were 93% in fiscal 2001 as compared to 90% of net refractive revenues in fiscal 2000. This increase reflects the impact of marketing programs aimed at raising consumer awareness of TLC's brand as well as the impact on per procedure fees as a result of discounts offered pursuant to the Corporate Advantage Program, which were not offset by a higher number of procedures being performed at TLC centers. In addition, increased infrastructure costs (i.e. people, information systems and marketing) were incurred to support the continued growth of the Company. The Company recognized the effects the reduced procedure volumes were going to have on the operations, and in fiscal 2001 management commenced a number of cost reduction initiatives.

Net revenues from non-refractive activities were $12.8 million in fiscal 2001, an increase of over 16% in comparison to $11.0 million in fiscal 2000. The increase in revenues reflects revenue growth of greater then 25% in the network marketing and management, professional healthcare facility management and hair removal subsidiaries, while revenues in the secondary care management and asset management subsidiaries reflected moderate growth.

Net loss from non-refractive activities was $18.6 million in fiscal 2001, an increase of over 280% in comparison to a net loss of $4.9 million in fiscal 2000. The loss in fiscal 2001 includes a restructuring charge of $11.7 million (2000 - $0) resulting from the decision made by the Company to no longer support the activities of its e-commerce subsidiary eyeVantage.com, Inc. Excluding the impact of the restructuring charge, eyeVantage.com, Inc., generated losses of $5.6 million (2000 - $3.8 million). The loss from the remaining non-refractive activities were $1.3 million, an increase from the loss in fiscal 2000 of $1.1 million. The increased loss in fiscal 2001 is due primarily to increased amortization of intangibles of $0.4 million at the Company's network marketing and management subsidiary resulting from increased goodwill arising from the finalization of the earn-out calculations arising from the Company's 1997 acquisition of this entity (see "Note 11 – Capital Stock – a) Common Stock" and "Note 17 – Acquisition – 2001 Transactions – ii and 2000 Transactions v.").

Interest (revenue)/expense and other expenses reflect interest revenue from the Company's cash position resulting from positive cash flow from operations and the result of a public offering in the fourth quarter of fiscal 1999. The lack of any material additions to long term debt and capital leases on equipment has resulted in reducing interest costs on debt as the various debt instruments approach maturity. Reduced cash and cash equivalent balances during the year combined with lower interest yields have resulted in lower interest revenues.

The increase in depreciation expense is largely a result of new centers and the additional depreciation and amortization associated with the Company's acquisitions during fiscal 2000 and 2001. The significant increase in the amortization of intangibles is the result of successfully establishing long term contractual relationships with a number of surgeons during the final quarter of fiscal 2000 and during fiscal 2001. Goodwill and intangibles are amortized on a straight-line basis over the term of the applicable agreement to a maximum of fifteen years. Current amortization periods range from five to fifteen years. In establishing the long term contractual relationships with these key surgeons, the surgeon in many cases has agreed to receive reduced fees for laser vision correction procedures performed. The reduction in doctors' compensation offsets in part the increased amortization of the intangible practice management agreements.

Restructuring and other charges (see "Note 18 – Restructuring and Other Charges") in fiscal 2001, reflect decisions that were made to:

a) exit from the Company's e-commerce enterprise eyeVantage.com, Inc. ("eyeVantage"). The decision to close activities at eyeVantage was the result of a number of factors including:

   (i) increased difficulty by .com enterprises to obtain funding due to concerns within the investment community regarding perceived value;
   (ii) eyeVantage was not able to obtain required financing to continue operations;
   (iii) eyeVantage was not able to meet expectations on the development of its products and services;
   (iv) eyeVantage had not established a revenue base sufficient to meet operating requirements or to attract outside investment; and
   (v) the operating costs on a monthly basis were in excess of $1.0 million and the Company did not feel there was sufficient future value to continue to fund operations.

The decision to close activities resulted in a restructuring charge of $11.7 million which reflects the estimated impact of the write-down of goodwill of $8.7 million, loss write down of fixed assets of $2.1 million, employee termination costs of $1.7 million representing the termination costs of 29 employees, accounts receivable losses of $0.4 million and $1.1 million of costs incurred in the closing process which includes legal, administrative and lease commitment costs. These losses were offset by a gain of $2.3 million resulting from the reduction in the purchase obligation associated with the Optical Options, Inc. acquisition (see "Note 17 – Acquisitions – 2001 Transactions – iii").

b) reflect potential losses from a equity investment in secondary care activities of $1.0 million. Due to a deteriorating relationship with the operations management team and the Company's strategic decision to withdraw from the management of secondary care practices where possible, the Company transferred its investment to an equity investment in return for a future earnings percentage. The equity investment has not acknowledged a liability to the Company for this investment, and the Company has not received any funds from the equity investment's earnings from the transferred investment. As a result the Company deemed it prudent to provide against the potential loss resulting from the inability to recover value of the investment transferred to the equity investment.

c) close three eye care centers for which it recorded costs of $1.4 million, sell its ownership in another eye care center creating a loss of $0.3 million and incurred a cost of $0.1 million to terminate plans to open another eye care center. During fiscal 2001, the Company had undertaken to restructure its operations to eliminate those centers which were identified as not capable of being profitable. These centers had been impacted by a number of challenges such as:

   (i) proximity to existing centers managed by the Company;
   (ii) local marketplace heavily impacted by discount laser vision correction providers which impaired the ability to compete as a premium laser vision correction provider;
   (iii) expectations of optometric network to generate sufficient interest in laser vision correction were not met; and
   (iv) the occupancy costs of a center (acquired as part of a multi-center acquisition) impacting the ability to lower costs in line with revenues.

d) undertake an extensive review of its internal structures, its marketplace, its resources and its strategies for the future. The review resulted in the restructuring of the Company s goals and structures to meet its future needs. The Company utilized the services of a national consulting firm to facilitate this internal restructuring process, whose participation was completed in the third quarter of fiscal 2001 with an associated cost of $1.6 million.

e) The Company has fully provided for its $0.9 million portfolio investment in Vision America. This investment was deemed to be permanently impaired during fiscal 2001. Subsequent to this decision Vision America filed for bankruptcy and is currently in the process of liquidating its assets. The Company will reflect any amounts recovered from this investment if and when the amount and timing of any amounts to be recovered becomes determinable.

f) In the fourth quarter, an award from an arbitration hearing involving TLC Network Services Inc. was issued against TLC. The cumulative liability arising from the award was $2.1 million which has been fully provided for in the fourth quarter of fiscal 2001. Payment of this liability has been deferred until exploration of all legal alternatives has been completed.

The following analysis identifies the allocation of costs for all the component transactions reported as Restructuring and Other Charges and identifies the operating impact in fiscal 2001 of those entities which have been restructured:

Summary of Restructuring and Other Charges
($ 000's)

	Restructuring charges				Other charges				
	eyeVantage .com,Inc.	Closure of laser centers	Sale of laser center	Terminate development of laser center	Consulting services	Impairment in Vision America investment	Legal arbitration settlement accrual	Potential losses re equity investment	Total
Severances	1,712	70							1,782
Lease commitments	808	280		122					1,210
Legal and Administrative costs	296						2,100		2,396
Professional services					1,600				1,600
Patient commitments		50							50
Asset write-downs									-
Current assets	425	86							511
Fixed Assets	2,091	865							2,956
Intangibles	8,713	34							8,747
Investments and other assets			160			936		977	2,073
									-
Recovery of purchase obligations	(2,380)								(2,380)
Write off of minority interest			130						130
									-
Total restructuring and other charges	11,665	1,385	290	122	1,600	936	2,100	977	19,075
Impact on Fiscal 2001 earnings									
Revenue	21	1,941	1,023	-					
Doctor Compensation	-	372	158						
Net revenues after doctor compensation	21	1,569	865	-					
Expenses:									
Operating expenses	3,011	1,935	1,191						
Interest and other (1)	1,739	226	22						
Depreciation of assets	186	395	180						
Amortization of intangibles	724	3	-						
	5,660	2,559	1,393	-					
Loss from operations excluding restructuring and other charges	(5,639)	(990)	(528)	-					
Number of months of operations during fiscal 2001 (2)	5	7	11	n/a					

(1) Interest expense at eyeVantage was from funding from affiliated companies which is eliminated in consolidated reporting.
(2) Reflects weighted average re revenue of three centers being closed

The $19.1 million for losses from restructuring and other charges consisted of $4.7 million of cash payments for severance, lease costs, consulting services and closure costs and $14.4 million of non-cash charges.

Income tax expense decreased to $2.2 million in fiscal 2001 from $3.5 million in fiscal 2000. This decrease reflects the Company's losses incurred in fiscal 2001 while including the impact of the tax liabilities associated with the Company's partners in profitable subsidiaries and the requirement to reflect minimum tax liabilities relevant in Canada, United States and certain other jurisdictions.

The loss for fiscal 2001 was $38.0 million or $1.00 per share, compared to a loss of $6.0 million or $0.16 cents per share for fiscal 2000. This increased loss reflects the impact of extensive losses from the activities in the eye care e-commerce subsidiary, restructuring and other charges, reduced revenues, increased amortization in intangibles and the continuing investment in staff, information systems and marketing. The Company has undertaken initiatives intended to address patient, optometric and ophthalmic industry trends and expectations to improve laser vision correction procedure and revenue volumes. Cost initiatives are targeting effective use of funds and a growth initiative is focusing on the future development opportunities for the Company in the laser vision correction industry.

Year ended May 31, 2000 compared to Year ended May 31, 1999

Net revenues for fiscal 2000 were $201.2 million, which was a 37% increase over the prior year's $146.9 million. More than 94% of total net revenues were derived from refractive surgery as compared to 90% in fiscal 1999.

Net revenues from eye care centers for fiscal 2000 were $190.2 million, which was 44% higher than the prior year's $132.4 million. More than 134,200 procedures were performed in fiscal 2000 compared to 90,600 procedures in fiscal 1999. The increased revenues reflected growth in the number of procedures at existing sites due to the increased acceptance of the procedure in the marketplace, as well as the development of new centers and the acquisition of centers. Despite the pricing pressures in the industry and the development of the Company's Corporate Advantage Program, the Company's net revenue after doctor compensation, per procedure, for fiscal 2000 declined less than 3% in comparison to fiscal 1999.

Operating expenses and doctor compensation from refractive activities increased to $171.1 million in the fiscal year 2000 from $103.0 million in fiscal 1999. This increase is a result of: (i) increased variable expenses associated with the increase in the number of laser vision correction procedures performed at existing eye care centers, (ii) increased fixed and variable costs from the addition of new eye care centers, (iii) higher marketing costs, (iv) costs associated with the Corporate Advantage Program and third party payor programs, and (v) increased corporate costs to support the higher level of business activity.

Operating expenses and doctor compensation from refractive activities as a percentage of net refractive revenues were 90% in fiscal 2000 as compared to 78% of net refractive revenues in fiscal 1999. This increase reflects the impact of marketing programs aimed at raising consumer awareness of brand reputation and brand recognition of the Company through the implementation of marketing programs aimed at enhancing brand recognition as well as through the development of the Corporate Advantage Program, which have not been fully offset by a higher average number of procedures being performed at TLC centers. In addition, increased infrastructure costs (i.e. people, information systems and marketing) were incurred to support the continued growth of the Company.

Net revenues from non-refractive activities were $11.0 million in fiscal 2000, a decrease in comparison to $14.5 million in fiscal 1999. The decrease in revenues reflect the divestitures of two of the Company's secondary care businesses and its managed care business.

Net loss from non-refractive activities excluding restructuring and other charges was $4.9 million in fiscal 2000 and increase of over 21% in comparison to a net loss of $4.0 million in fiscal 1999. In fiscal 2000, the Company incurred losses of $3.8 million from its e-commerce subsidiary eyeVantage.com, Inc. In fiscal 1999, excluding restructuring and other charges, the Company incurred losses of $3.6 million from its managed care subsidiary.

Interest (revenue)/expense and other expenses reflected interest revenue from a strong cash position resulting from positive cashflow from operations and the result of a public offering in the fourth quarter of fiscal 1999. Improved financial terms resulted in decreased interest expense on long-term debt and capital leases on equipment decreased from fiscal 2000 compared to fiscal 1999.

The increase in depreciation and amortization expense was largely a result of new centers and the additional depreciation and amortization associated with the Company's acquisitions during fiscal 1999 and 2000. Goodwill and intangibles are amortized on a straight-line basis over the term of the agreement to a maximum of fifteen years.

Start up and development costs in the nine months of fiscal 1999 were incurred by Partner Provider Health ("PPH") for the development of a managed care business specializing in eye care. The Company sold PPH in May of 1999. The Company did not incur these expenses in fiscal 2000 and does not expect to incur these costs in the future.

Income tax expense increased to $3.5 million in fiscal 2000 from $2.0 million in fiscal 1999. This increase was a result of the Company having utilized most of its tax losses from prior periods and the impact of the tax liabilities associated with the Company's partners in profitable subsidiaries.

The loss for fiscal 2000 was $6.0 million or $0.16 per share, compared to a loss of $4.9 million or $0.14 cents per share for fiscal 1999. This loss reflected the Company's continued investment in staff, information systems and marketing, which was not fully offset by increased procedure volumes. The improved performance in secondary care operations and the disposal of the managed health care business were offset by losses in the eye care e-commerce subsidiary.

Liquidity and Capital Resources

During fiscal 2001 the Company continued to execute its expansion plan by acquiring the business assets located at the practices of several doctors in order to solidify its presence in several key markets. These acquisitions and the development of new centers were the largest uses of cash during the year. Cash, cash equivalents, short-term investments and restricted cash were $55.7 million at May 31, 2001 as compared to $80.3 million at May 31, 2000. Net current assets at May 31, 2001 reflected a decrease to $36.8 million from $59.5 million at May 31, 2000. This decrease reflects primarily the reduction in cash and cash equivalents during fiscal 2001.

The Company's principal cash requirements included normal operating expenses, debt repayment, capital expenditures and funding requirements of additional expansion. Normal operating expenses include doctor compensation, procedure royalty fees, procedure medical supply expenses, travel and entertainment, professional fees, insurance, rent, equipment maintenance, wages, utilities and marketing.

During the year the Company invested $10.7 in capital assets. Included in the investment was the completion of a new corporate headquarters which the Company intends to sell as part of a sale/leaseback transaction which is expected to generate $5.0 million for the Company. The Company has forecasted its capital expenditure requirements for fiscal 2001 will not exceed $5.0 million.

In August 2000, the Company purchased 100% of the membership interests in Eye Care Management Associates, LLC, a laser vision correction business, in exchange for cash of $4,000,000, shares of the Company valued at $1,860,000 and amounts contingent upon future events.

During fiscal 2001, the Company paid $3,620,000 in cash to satisfy outstanding purchase commitments of its e-commerce subsidiary eyeVantage.com arising from the acquisition by eyeVantage.com of Optical Options, Inc. The Company has ceased the operations of eyeVantage.com but continues to pursue opportunities to sell the assets of the Optical Options, Inc. investment.

In March 2001, the Company acquired certain assets and liabilities of a Maryland Professional Corporation for $10.0 million in cash and 410.0 million payable in four equal installments of $2.5 million on the first four anniversary dates of the transaction. The acquisition of these assets strengthens the Company's relationship with successful laser vision surgeons in an important market.

During the year, the Company incurred cash costs of $4.7 million for restructuring and other charges primarily for severance, lease costs, consulting services and closure costs.

The Company has access to vendor financing from a laser vendor at favourable rates. It has completed an agreement with a competing laser vendor which provides for payment on a per procedure fee for the laser, associated medical equipment and supplies, royalty fees and maintenance. The Company expects to continue to have access to these financing options for at least the next 18 months.

The Company reflected a liability of $2.1 million resulting from an arbitration award against the Company in the fourth quarter of fiscal 2001. The Company has deferred payment of this liability until exploration of all legal alternatives have been completed. Payment of this liability if necessary is not anticipated until the latter half of fiscal 2002.

Cash Provided by Operating Activities

Net cash provided by operating activities decreased by $8.2 million to $14.8 million in fiscal 2001 from $23.0 million in fiscal 2000. Net cash provided by operating activities in fiscal 2001 primarily represents cash earnings (defined as net loss adding back amortization and depreciation, gain or loss on the sale of fixed assets, non-cash restructuring costs, income tax provision and minority interest included as part of net income) of $8.6 million (2000 - $23.8 million), a reduction in accounts receivable of $5.2 million (2000 - $0), reduction in accounts payable of $4.7 million (2000 - increase of $4.2 million), net refund of prior period tax instalments of $3.8 million (2000 – payments of $6.7 million) and a reduction of prepaid expenses and other assets net of liabilities of $1.9 million (2000 - $1.7 million).

Cash Used in Financing Activities

Net cash used in financing activities increased by $1.0 million in fiscal 2001 to $15.0 million from $14.0 million in fiscal 2000. Net cash used in financing activities in fiscal 2001 primarily represents payments of debt financing and obligations under capital leases of $7.1 million (2000 - $7.7 million) net of proceeds of debt financing of $0.2 million (2000 - $0.8 million), payments of accrued purchase obligations of $3.6 million (2000 - $0), distributions to non-controlling interests of $4.9 million (2000 - $1.6 million), payments related to the purchase and cancellation of capital stock of $0.5 million (2000 - $10.4 million) offset by proceeds from the issuance of common stock of $0.7 million (2000 - $2.4 million) and contributions by non-controlling interests $0 (2000 - $2.4 million).

Cash Used in Investing Activities

Net cash used in investing activities decreased by $25.7 million in fiscal 2001 to $30.3 million from $56.0 million in fiscal 2000. Net cash used in investing activities in fiscal 2001 primarily represents the purchase of fixed assets and the cash component of assets under capital lease of $10.7 million (2000 - $26.2 million), cash costs of acquisitions and investments of $17.3 million (2000 - $56.5 million), the purchase of short term investments of $6.1 million (2000 – sale of $26.2 million) offset by proceeds from the sale of fixed assets, assets under capital lease and investments of $3.8 million (2000 - $0.4 million).

The Company estimates that existing cash balances, together with funds expected to be generated from operations and available credit facilities, will be sufficient to fund the Company's anticipated level of operations, acquisition and expansion plans for the foreseeable future.

Other Business Segments

TLC made the decision during fiscal 2001 to no longer support the activities of its e-commerce subsidiary eyeVantage.com and sustained significant write-offs and cash costs as a result. The Company's other investments in non-core activities are currently largely self-sustaining with minimal requirement for funding support. This segment includes activities in secondary care practice management, network management and marketing, asset management, healthcare facility management and hair removal facilities. The Company continues its efforts to maximize the value of its investments in non-core businesses.

Market Risk

In the ordinary course of business, the Company is exposed to interest rate risks and foreign currency risks, which the Company does not currently consider to be material. These exposures primarily relate to having short-term investments earning short-term interest rates and to having fixed rate debt. The Company views its investment in foreign subsidiaries as long-term commitments, and does not hedge any translation exposure.

CANADIAN GAAP FINANCIAL STATEMENTS

INDEPENDENT AUDITORS REPORT

To the Stockholders of TLC Laser Eye Centers Inc.

We have audited the consolidated balance sheets of TLC Laser Eye Centers Inc. as at May 31, 2001 and 2000 and the consolidated statements of loss, stockholders equity and cash flows for each of the years in the three-year period ended May 31, 2001. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian and United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended May 31, 2001 in accordance with Canadian generally accepted accounting principles.

On July 6, 2001, (except for Note 20 to the consolidated financial statements referred to below, which is as at August 27, 2001) we reported separately to the Directors of TLC Laser Eye Centers Inc. on the consolidated financial statements for the same periods prepared in accordance with United States generally accepted accounting principles.

Toronto, Canada
July 6, 2001, (except as to Note 20, which is as at August 27, 2001).

Signed ERNST & YOUNG LLP
Chartered Accountants

TLC LASER EYE CENTERS INC.
CONSOLIDATED STATEMENTS OF LOSS

(U.S. dollars, in thousands except per share amounts)

	Years Ended May 31,		
	2001	**2000 restated - see Note 1**	**1999 restated -see Note 1**
NET REVENUES			
Refractive	$161,219	$190,233	$132,428
Other	12,787	10,990	14,482
Net revenues (Note 15)	174,006	201,223	146,910
EXPENSES			
Doctor compensation			
Refractive	15,538	17,335	12,824
Operating	149,675	166,206	102,775
Interest and other (Note 12)	(2,543)	(4,492)	2,245
Depreciation of capital assets and assets under capital lease (Note 12)	15,050	14,292	11,052
Amortization of intangibles (Note 12)	12,543	7,396	3,882
Start-up and development expenses	--	--	3,606
Restructuring and other charges (Note 18)	19,075	--	12,924
	209,338	200,737	149,308
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	(35,332)	486	(2,398)
Income taxes (Note 13)	(2,239)	(3,454)	(2,020)
Non-controlling interest	(385)	(3,006)	(448)
NET LOSS FOR THE YEAR	$(37,956)	$(5,974)	$(4,866)
LOSS PER SHARE - Basic and Diluted	$(1.00)	$(0.16)	$(0.14)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING —	37,778,955	37,178,253	34,090,316

TLC LASER EYE CENTERS INC.
CONSOLIDATED BALANCE SHEETS

(U.S. dollars, in thousands)

	As at May 31, 2001	As at May 31, 2000 restated - see Note 1
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2, 3 and 16)	$47,987	$78,531
Short-term investments (Note 3)	6,063	--
Accounts receivable (Note 16)	9,950	15,527
Income taxes recoverable	--	4,734
Prepaid expenses and sundry assets	4,501	5,922
Total current assets	68,501	104,714
Restricted cash (Notes 2 and 3)	1,619	1,722
Investments and other assets (Note 4)	32,906	34,305
Intangibles (Note 5)	92,802	89,297
Fixed assets (Note 6)	44,963	53,431
Assets under capital lease (Note 7)	7,382	10,722
Total assets	$248,173	$294,191
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$15,028	$21,467
Accrued purchase obligations (Note 17)	3,000	13,200
Accrued restructuring costs (Note 18)	718	--
Accrued wage costs	3,652	2,974
Accrued legal settlements (Note 18)	2,100	--
Income taxes payable	397	--
Current portion of long-term debt (Notes 8 and 17)	3,826	2,332
Current portion of obligations under capital leases (Note 9)	2,943	5,260
Total current liabilities	31,664	45,233
Long-term debt (Notes 8 and 17)	7,032	2,922
Obligations under capital leases (Note 9)	1,281	3,806
Deferred rent (Note 10)	617	915
Total liabilities	40,594	52,876
Non-controlling interest	10,738	12,842
Commitments and contingencies (Notes 14 and 17)		
STOCKHOLDERS' EQUITY		
Capital stock: (Note 11)		
Common stock, no par value; unlimited number authorized; 38,031 issued and outstanding (2000 – 37,150)	276,277	269,953
Warrants	532	532
Deficit	(79,968)	(42,012)
Total stockholders' equity	196,841	228,473
Total liabilities and stockholders' equity	$248,173	$294,191

Approved on behalf of the Board:
(Signed) ELIAS VAMVAKAS
Elias Vamvakas, Director

(Signed) WARREN S. RUSTAND
Warren S. Rustand, Director

TLC LASER EYE CENTERS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars, in thousands)

	Years Ended May 31,		
	2001	**2000 restated - see Note 1**	**1999 restated - see Note 1**
Operating activities			
Net loss for the year	$(37,956)	$(5,974)	$(4,866)
Items not affecting cash			
Depreciation and amortization	27,593	21,688	14,934
Write-off of goodwill	--	489	--
Loss on sale of fixed assets and assets under capital lease	1,946	1,099	229
Deferred income taxes	-	1,320	1,204
Non-cash restructuring and other costs	14,395	--	11,167
Non-controlling interest	385	3,006	448
Other	292	780	252
Changes in non-cash operating items			
Accounts receivable	5,232	(15)	(9,247)
Prepaid expenses and sundry assets	1,891	1,047	(2,208)
Accounts payable and accrued liabilities	(4,711)	4,153	10,350
Income taxes payable, net	6,051	(4,574)	(162)
Deferred rent and compensation	(298)	(44)	(275)
Cash provided by operating activities	14,820	22,975	21,826
Financing activities			
Restricted cash	103	8	356
Proceeds from debt financing	226	826	25
Principal payments of debt financing	(2,257)	(2,635)	(6,668)
Payments of accrued purchase obligations	(3,620)	--	--
Principal payments of obligations under capital leases	(4,840)	(5,063)	(3,302)
Contributions from non-controlling interests	--	2,365	1,305
Distributions to non-controlling interests	(4,865)	(1,569)	(1,233)
Payments related to the purchase and cancellation of capital stock	(481)	(10,365)	(5,387)
Proceeds from issuance of capital stock	711	2,384	129,607
Cash provided by (used in) financing activities	(15,023)	(14,049)	114,703
Investing activities			
Purchase of fixed assets and assets under capital lease	(10,656)	(26,153)	(17,843)
Proceeds from sale of fixed assets and assets under capital lease	2,491	185	--
Proceeds from the sale of investments	1,117	227	--
Acquisitions and investments	(17,345)	(56,496)	(22,316)
Short-term investments	(6,063)	26,212	(26,212)
Other	115	32	242
Cash used in investing activities	(30,341)	(55,993)	(66,129)
Net increase (decrease) in cash and cash equivalents during the	(30,544)	(47,067)	70,400
Cash and cash equivalents, beginning of year	78,531	125,598	55,198
Cash and cash equivalents, end of year	$47,987	$78,531	$125,598

(Note 19 – discusses non-cash transactions, which are not included in the consolidated statements of cash flows)

TLC LASER EYE CENTERS INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(U.S. dollars, in thousands)

	Common stock		Warrants			
	Number of Shares	Amount	Number of Warrants	Amount	Deficit	Total
	(000's)	$	(000's)	$	$	$
Balance, May 31, 1998	33,668	143,554	—	—	(21,679)	121,875
Shares issued for acquisitions	50	837				837
Shares issued to acquire other assets	50	728				728
Shares purchased for cancellation	(256)	(1,095)			(4,290)	(5,385)
Exercise of stock options	773	3,073				3,073
Shares issued as remuneration	40	600				600
Shares issued as part of the employee share purchase plan	47	750				750
Public offering, net of issue costs	2,990	121,007				121,007
Net loss					(4,866)	(4,866)
Balance, May 31, 1999	37,362	269,454	—	—	(30,835)	238,619
Warrants issued			100	532		532
Shares issued for acquisition	302	728				728
Value determined for shares issued contingent on meeting earnings criteria	—	1,397				1,397
Shares purchased for cancellation	(710)	(5,162)			(5,203)	(10,365)
Exercise of stock options	87	1,314				1,314
Shares issued as remuneration	44	387				387
Shares issued as part of the employee share purchase plan	65	1,696				1,696
Reversal of IPO costs, over accrual	—	139				139
Net loss					(5,974)	(5,974)
Balance May 31, 2000	37,150	269,953	100	532	(42,012)	228,473
Shares issued for acquisition	832	6,059				6,059
Shares purchased for cancellation	(108)	(481)				(481)
Exercise of stock options	40	125				125
Shares issued as remuneration	5	35				35
Shares issued as part of the employee share purchase plan	112	586				586
Net loss					(37,956)	(37,956)
Balance May 31, 2001	38,031	276,277	100	532	(79,968)	196,841

Nature of Operations

TLC Laser Eye Centers Inc. and its subsidiaries (the "Company") develop and manage laser vision correction centers in the United States and Canada. Each center provides excimer laser and other clinical equipment and all related management and support services to physicians and physician practices performing excimer laser procedures in the Company's centers.

The Company currently owns and manages a secondary eye care business with multiple centers in the state of Michigan. These centers provide all necessary clinical equipment and infrastructure and provide all related management and support services to physician practices treating a wide range of vision disorders.

The Company faces a number of risks and uncertainties given the nature of the industry in which it operates.

The Company's profitability is dependent upon broad acceptance in the United States and Canada of laser vision correction as an alternative to existing methods of treating refractive disorders. Broad market acceptance is dependent on many factors including cost, the lack of long-term follow-up data and the resulting concerns relating to safety and effectiveness, future regulatory developments and uncertainty in the marketplace caused by the recent bankruptcies occurring in the industry.

The industry in which the Company operates is subject to extensive federal, state and local laws, rules and regulations. Many of these laws and regulations are ambiguous in nature and have not been definitively interpreted by courts and regulatory authorities. Moreover, they vary from jurisdiction to jurisdiction. Accordingly, the Company may not always be able to predict clearly how such laws and regulations will be interpreted or applied and some of the Company's activities could be challenged. In addition, there can be no assurance that the regulatory environment in which the Company operates will not change significantly in the future.

Most states in the United States prohibit the Company from practicing medicine or employing physicians to practice medicine on the Company's behalf. Because the Company does not practice medicine, its activities are limited to owning and managing eye care centers and secondary care centers and affiliating with health care providers to render medical services at the Company's centers. As a result, the Company is highly dependent on its affiliated doctors.

The provision of medical services entails an inherent risk of potential malpractice and other similar claims. Although the Company does not engage in the practice of medicine, there can be no assurance that claims relating to services provided at the Company's centers will not be asserted against the Company. The Company currently maintains malpractice insurance that it believes to be adequate both as to risks and amounts. In addition, the doctors providing medical services at the Company's centers are required to maintain insurance.

The Company's revenues from managing secondary care centers are derived from fees paid by or on behalf of patients to the practices affiliated with the Company. The Company's profitability could be affected by government and private third-party payors seeking to contain healthcare costs by reducing reimbursement rates, lowering utilization rates and negotiating reduced payment schedules with providers of vision care.

1. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements include the accounts of the Company and its majority owned subsidiaries, partnerships and other entities in which the Company has more than a 50% ownership interest and exercises control. The ownership interests of other parties in less than wholly-owned consolidated subsidiaries, partnerships and other entities are presented as non-controlling interests. All significant intercompany transactions and balances have been eliminated on consolidation.

The Company does not have an ownership interest in, nor does it exercise control over, the physician practices under its management. Accordingly, the Company does not consolidate physician practices under its management.

Fixed Assets and Assets Under Capital Lease

Fixed assets and assets under capital lease are recorded at cost less accumulated depreciation. Depreciation is provided at rates intended to write off the assets over their productive lives as follows:

Buildings	- straight-line over forty years
Computer equipment and software	- straight-line over three years
Furniture, fixtures and equipment	- 20% diminishing balance
Laser equipment	- 20% diminishing balance
Leasehold improvements	- straight-line over the initial term of the lease
Medical equipment	- 20% diminishing balance
Vehicles and other	- 30% diminishing balance

Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired, and is being amortized on a straight-line basis over the term of the purchase agreement to a maximum of fifteen years.

The practice management agreements represent the cost of obtaining the exclusive right to manage eye care centers and secondary care centers in affiliation with the related physician group during the term of the agreements. Practice management agreements are amortized using the straight-line method over the term of the related employment agreement, to a maximum of fifteen years. The current amortization periods range from five to fifteen years.

Impairment of Long-lived Assets

For fixed assets and certain intangibles, the Company assesses the recoverability by determining whether the carrying value of such assets can be recovered through projected undiscounted cash flows. If the sum of expected future cash flows, undiscounted and without interest charges, is less than net book value, the excess of the net book value over the estimated fair value is charged to operations in the period in which such impairment is determined by management.

Start-up and Development Expenses

Start-up and development expenses represent costs incurred to research and develop potential businesses in North America, including salaries and benefits, professional fees, advertising, promotion and travel, and costs incurred by businesses during the period prior to commencement of commercial operations. Start-up and development expenses are expensed as incurred.

Revenues

Approximately 48% of the Company's net revenue represents management fee revenue arising from practice management agreements with Physician Owned Companies ("PCs"). Under the terms of the practice management agreements, the Company provides management, marketing and administrative services to refractive practices in return for management fees. Management fee revenue is equal to the net revenue of the PCs, less amounts retained by physician groups, and may include costs for uncollectible amounts from patients, professional contractual costs and miscellaneous administrative charges. Net revenues of the PCs represents amounts charged to patients for laser vision correction procedures (net of the impact of applicable patient discounts) less contractual adjustments.

Contractual adjustments arise due to the terms of certain reimbursement and managed care contracts. Such adjustments represent the difference between the charges at established rates and estimated recoverable amounts and are recognized in the period the services are rendered. Any differences between estimated contractual adjustments and actual final settlements under reimbursement contracts are recognized as contractual adjustments in the year final settlements are determined.

Provisions for doubtful accounts reflect amounts for which there is a permanent reduced likelihood of collection. These amounts are due from physicians and patients who have a contractual obligation to pay the PC directly and appear unable to do so in whole or in part. Management fee revenues from PCs on laser refractive surgeries are recognized as services are performed.

Approximately 45% of the Company's net revenue reflects operating revenues pertaining to Company owned laser centers. Net revenue represents amounts charged to patients at standard rates for laser vision correction services (net of the impact of applicable patient discounts) less contractual adjustments and amounts collected on behalf of co-managing physicians.

Approximately 7% of the Company's net revenue is from the Company's Other segment which includes management fee revenue from secondary care practices, network marketing and management, asset management fees, fees for professional healthcare facility management and revenue from hair removal procedures. Revenues from all sources are recognized as the service or treatment is provided.

Income Taxes

Effective June 1, 2000, the Company has changed the method for accounting for income taxes from the deferral method to the liability method as provided for in the new recommendations of The Canadian Institute for Chartered Accountants. The Company's accounting policy is now substantially consistent with United States Generally Accepted Accounting Principles. As permitted under the new rules, prior year financial statements have been restated.

Under the new liability method of accounting for income taxes, future taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

The effect of the change on the consolidated balance sheet as at May 31, 2001 and May 31, 2000 was a decrease to goodwill and an increase to deficit of $2,524,000 at each date respectively. The change has no effect on net income or loss per share for the year ended May 31, 2001. The effect on the consolidated balance sheet as at May 31, 2000 was a decrease to goodwill and an increase to the deficit of $1,320,000 (1999 - $1,204,000). For the year ended May 31, 2000, the effect of the change decreases net income by $1,320,000 and net income per share by $0.04 (for the year ended May 31, 1999 – net income decreased by $1,204,000 and net income per share decreased by $0.04).

See Note 13 for discussion of income taxes.

Cash equivalents

Cash equivalents include highly liquid short-term investments with original maturities of 90 days or less.

Short-term investments

Short-term investments, which consist principally of corporate bonds, are carried at the lower of cost or market.

Accounting for Stock-based Compensation

The Company has two stock-based compensation plans, a stock option plan and an employee share purchase plan which are described in Note 11. No compensation expense is recognized for the stock option plan when options are issued to employees. Compensation expense is recognized for the employee share purchase plan for the amount by which employee purchases are supplemented annually by an additional 25% contribution by the Company. Any consideration paid by the employees on exercise of stock options or purchase of stock is credited to share capital.

Marketing Costs

The Company expenses marketing costs as incurred. Marketing expense for the year ended May 31, 2001 was approximately $25,598,000 (2000 - $24,202,000). Marketing expenses consist primarily of print, radio and television media costs plus the associated production costs required to create the marketing product.

Foreign Exchange

The unit of measure of the parent holding company and the Canadian operations is the U.S. dollar. The Company's Canadian operations are translated into U.S. dollars using the temporal method. Accordingly, the assets and liabilities of the Company's Canadian operations are translated into U.S. dollars at exchange rates prevailing at the consolidated balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Income and expenses are translated into U.S. dollars at average exchange rates prevailing during the year with the exception of depreciation and amortization, which are translated at historical exchange rates. Exchange gains and losses are included in net loss for the year.

Earnings per Share

During fiscal 2001, the Company retroactively adopted the new accounting recommendations of the CICA relating to earnings per share.

Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Fully diluted earnings per share reflects the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the period, if dilutive, and is calculated using the treasury stock method. The weighted average number of common shares used in the calculation of both basic and fully diluted earnings per share for the year ended May 31, 2001 is 37,778,955 (2000 – 37,178,253; 1999 – 34,090,316).

The computation of diluted earnings per share for the year ended May 31, 2001 excludes 2,853,000 options (2000 – 3,057,000; 1999 – 2,692,000) and 100,000 warrants (2000 – 100,000; 1999 – 0) as the effect on earnings per share was anti-dilutive.

The adoption of the new accounting recommendations had no impact on basic or fully-diluted earnings per share for prior periods.

Contingent Consideration

Where the Company has entered into agreements with physicians which allow for contingent consideration based on the physician being able to achieve certain pre-defined targets, an analysis is made to determine whether the contingent consideration will be reflected as an additional purchase price obligation or deemed to be a compensation expense. The resulting accounting treatment if the consideration is deemed to be an additional purchase price payment will be to increase the value assigned to practice management agreements intangible assets and amortize this additional amount over the applicable period(s) as determined by the relevant agreement. Where the contingent consideration is deemed to be compensation the expense is reflected as an operating expense applied over the applicable periods as determined by the terms of the relevant agreement.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in income in the period in which they become known.

2. Cash and Cash Equivalents

	2001	2000
Cash and cash equivalents	$47,987	$78,531

The Company has a banking facility of approximately $650,000 (2000 - $845,000) available for posting letters of guarantee, under terms whereby the Company must maintain a similar minimum amount in its bank account. As of May 31, 2001, $480,000 (2000 - $773,000) of this facility has been utilized. Excluded from cash and cash equivalents are collateral deposits of $684,000 (2000 – $773,000) of which $204,000 (2000 - $0) is in the process of being released. In addition, the Company has posted cash collateral deposits in respect of certain lease commitments, which amount to $935,400 as of May 31, 2001 (2000 - $949,000).

3. Marketable Securities

The Company's marketable securities by type of security, contractual maturity and classification in the consolidated balance sheets are as follows:

	2001	2000
Type of security		
U.S. dollar corporate debt	$ 17,220	$ 60,653
U.S. dollar fixed deposit	29,421	14,460
Cdn. dollar fixed deposit	689	773
	$ 47,330	$ 75,886
Contractual maturity		
Maturing in one year or less	$ 45,711	$ 74,164
Maturing after one year through three years	1,619	1,722
	$ 47,330	$ 75,886
Classification in the consolidated balance sheets		
Cash equivalents	$ 39,648	$ 74,164
Short-term investments	6,063	--
Restricted cash	1,619	1,722
	$ 47,330	$ 75,886

4. Investments and Other Assets

	2001	2000
Portfolio investments (1)	$27,191	$27,895
Deferred foreign exchange	193	376
Long-term receivables (2)	4,950	4,904
Other	572	1,130
	$32,906	$34,305

(1) On June 8, 1998 the Company made a portfolio investment of $8,000,000 in cash through the purchase of 2,000,000 preference shares in LaserSight Incorporated. These preference shares were convertible to LaserSight Incorporated common shares at $4.00 per share in June 2001. On March 24, 1999, the Company made an additional $2,000,000 investment to purchase 500,000 common shares in LaserSight Incorporated. On January 28, 2000, the Company

made an additional $10,000,000 investment to purchase 1,015,873 common shares of LaserSight Incorporated. LaserSight Incorporated is a publicly traded United States manufacturer of excimer lasers, microkeratomes and microkeratome blades with limited approval for its excimer laser. The Company's fully diluted ownership interest in LaserSight Incorporated is 15.0%.

In June 2001, the Company's investment of 2,000,000 preferred shares in LaserSight Incorporated which have a market value of $4,860,000 were converted to common shares.

No provision for loss on the Lasersight Incorporated common and preferred shares has been reflected, as management does believe a permanent impairment in value has ocurred.

During fiscal 2000, the Company made a number of portfolio investments in the amount of $7,188,000 in various companies related to the laser vision correction industry to support the development of laser vision correction technology.

(2) Long-term receivables include an amount from a related secondary care practice which in fiscal 2001, the Company provided funding of $500,000 to assist in the consolidation of debt. In fiscal 1999, a long-term receivable arose which was non-interest bearing, unsecured and is to be repaid based on an escalating percentage of the practice's revenue collected over the next five years. While the Company is continuing in its efforts to collect this outstanding receivable, it has taken a provision of $977,000 against this entire receivable in fiscal 2001.

During fiscal 2001, the Company invested approximately $800,000 in new investments in industry related activities, reflected equity losses of $450,000 and collected $83,000 against outstanding amounts.

During fiscal 2000, the Company advanced $1,435,000 to a related secondary care practice in exchange for a five year promissory note bearing a fixed interest rate of 8%.

During fiscal 2000, the Company advanced $1,000,000 to an unrelated refractive care service provider in exchange for a convertible subordinated term note bearing interest at current LIBOR rates to mature by July 1, 2002.

During fiscal 2000, the Company provided financing of $900,000 at 10% to an unrelated refractive care service provider for lasers, payable over a five year period.

5. Intangibles

	2001	2000
Goodwill (net of amortization of $10,709,000 (2000 - $8,121,000))	$32,752	$ 45,311
Practice management agreements (net of amortization of $14,528,000 (2000 - $5,969,000))	60,050	43,986
	$92,802	$89,297

6. Fixed Assets

	2001		2000	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land and buildings	$ 10,647	$ 750	$ 4,042	$ 619
Computer equipment and software	13,492	10,929	15,838	8,034
Furniture, fixtures and equipment	7,781	3,933	8,230	3,310
Laser equipment	13,380	6,001	17,073	5,968
Leasehold improvements	25,637	12,942	26,078	9,510
Medical equipment	14,924	6,807	14,315	5,261
Vehicles and other	828	364	890	333
	86,689	$ 41,726	86,466	$ 33,035
Less accumulated depreciation	41,726		33,035	
Net book value	$44,963		$53,431	

7. Assets under Capital Lease

	2001		2000	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Computer equipment and software	$ 162	$ 162	$ 164	$ 164
Furniture, fixtures and equipment	598	340	629	297
Laser equipment	12,930	6,899	15,507	6,455
Medical equipment	2,639	1,546	2,616	1,278
	16,329	$ 8,947	18,916	$ 8,194
Less accumulated depreciation	8,947		8,194	
Net book value	$ 7,382		$10,722	

8. Long-Term Debt

	2001	2000
Term loans		
Interest at 8%, due September 2001, payable to affiliated physicians	$ 32	$ 155
Interest ranging from 5.75% to 12% (1999 – 5.75% to 12%), due November 2001 to March 2007, collateralized by equipment	10,826	5,099
	10,858	5,254
Less current portion	3,826	2,332
	7,032	2,922

Aggregate minimum repayments of principal for each of the next five years and thereafter are as follows:

2002	$ 3,826
2003	2,811
2004	2,092
2005	1,861
2006	69
Thereafter	199

9. Obligations under Capital Leases

The leases expire between 2001 and 2004 and include imputed interest at rates ranging from 6% to 14%. The majority of capital leases are denominated in U.S. dollars and represent leases for lasers and medical equipment. The capitalized lease obligations represent the present value of future minimum annual lease payments as follows:

	2001	2000
2001	$ --	$ 5,472
2002	3,454	3,589
2003	1,203	1,316
2004	252	326
	4,909	10,703
Less interest portion	685	1,637
	4,224	9,066
Less current portion	2,943	5,260
	$ 1,281	$ 3,806

10. Deferred Compensation and Rent

Deferred compensation represents a plan to compensate certain key managerial executives and was included as part of the acquisition of 20/20 Laser Centers, Inc. (20/20). The plan vested 100% on the earlier of February 15, 1999 or termination of employment, as defined. On May 31, 1998, $320,000 was accrued on potential deferred compensation of $320,000. During fiscal 1999, outstanding options were exercised resulting in the elimination of the outstanding liability.

Deferred rent represents the benefit of operating lease inducements which are being amortized on a straight-line basis over the related term of the lease.

11. Capital Stock

As of May 31, 2001, the Company s capital stock position included Common Stock and Warrants as reflected in the Consolidated Statements of Stockholders Equity and also offered options for corporate employees and certain other individuals.

a) Common Stock

i) In connection with the 1997 acquisition of The Vision Source, Inc., during 2000, the Company released 210,902 shares from escrow which had a value of $1,397,000 based on market prices at the time of settlement. An additional tranche of 536,764 shares valued at $4,199,000 were issued in 2001 (see note 17).

ii) On November 4, 1999, the Company announced that it intended to purchase up to 1,870,000 of its common shares, representing approximately 5% of 37,453,188 common shares outstanding at that time. The Company commenced purchasing shares on November 8, 1999 and terminated purchasing by September 7, 2000, during which period 803,000 common shares were acquired at an average market price of U.S. $13.52 per share and were subsequently cancelled.

iii) During fiscal 1999, the Company introduced an employee share purchase plan to facilitate the ownership of the Company's common shares by its employees. Employee purchases are supplemented annually by an additional 25% contribution by the Company, which are charged to earnings.

iv) On September 24, 1998, the Company exercised a contractual option to purchase 116,771 common shares from the Goldstein Family Trust for $1,264,411 in cash. The common shares were then cancelled and capital stock was reduced using the average value of common shares as of November 30, 1998 of Cdn.$6.20 per share. The remaining allocation of the cash paid for the shares was reflected as a reduction in deficit. In addition, shares were retired in connection with a divestiture.

v) On August 21, 2000, the Company purchased the membership interests in Eye Care Management Associates, LLC in exchange for $4,000,000 in cash, 295,165 common shares of the Company with a value of $1,860,000 and amounts contingent upon future events (Note 17).

b) Warrants

Effective January 1, 2000, the Company granted warrants to purchase 100,000 of the Company s common shares at an exercise price of $13.063 per share, representing the average market price for the common shares during the 20 trading days prior to the effective date of the grant of the warrants. These warrants were granted to an employee benefits company in consideration for establishing a business relationship. The warrants are non-transferable, have a five-year term and vest over a period of three years. This transaction was exempt from registration under the Securities Act pursuant to Section 4(2) as a transaction not involving a public offering. The fair value of the options granted of $532,000 which is charged to earnings over the vesting period, was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest of 6.35%; dividend yield of 0%; volatility factor of the expected market price of the Company's common shares of 0.35 and an expected life of five years.

c) **Options**

At May 31, 2001, the Company has reserved 5,116,000 common shares for issuance under its stock option plan for corporate employees and certain other individuals. Options granted have terms ranging from five to eight years. Vesting provisions on options granted to date include options that vest immediately, options that vest in equal amounts annually over the first four years of the option term and options that vest entirely on the first anniversary from the grant date. Those exercise prices, which are denominated in Canadian dollars, for options outstanding as of May 31, 2001 range as follows:

Outstanding				**Exercisable**	
Price Range (Cdn $)	Number of Options	Weighted-Average Contractual Life	Weighted – Average Exercise Price (Cdn $)	Number of Options	Weighted – Average Exercise Price (Cdn $)
$1.43 – $1.43	500	4.5 years	1.43	-	-
$4.09 - $5.54	722,867	2.9 years	4.10	408,273	4.11
$7.25 - $10.55	227,844	2.5 years	7.82	113,050	7.25
$10.85 - $19.73	212,929	1.7 years	12.49	201,878	12.41
$20.75 - $30.66	457,012	2.6 years	25.54	305,416	25.90
$32.18 - $74.50	16,169	3.0 years	45.99	5,585	45.83

During the year, options denominated in U.S. dollars were issued and outstanding with prices ranging as follows:

Outstanding				**Exercisable**	
Price Range (U.S.$)	Number of Options	Weighted-Average Contractual Life	Weighted – Average Exercise Price (U.S. $)	Number of Options	Weighted – Average Exercise Price (U.S.$)
$1.34 - $6.50	797,182	4.4 years	3.91	-	-
$6.73 - $17.37	45,692	3.6 years	11.32	13,844	13.59
$18.63 - $21.69	363,775	3.0 years	19.13	234,410	19.36
$23.66 – $24.53	6,750	3.3 years	23.95	1,688	23.95
$27.98 - $50.94	2,407	3.2 years	39.91	602	39.91

	Options (000's)	Weighted Average Exercise Price Per Share	Weighted Average Exercise Price Per Share
May 31, 1998	2,416	Cdn$5.39	US$3.70
Granted	783	26.71	17.65
Exercised	(507)	7.21	4.77
May 31, 1999	2,692	Cdn$11.12	US$7.54
Granted	453	30.14	20.62
Exercised	(88)	10.71	7.26
May 31, 2000	3,057	Cdn$13.95	US$9.49
Granted	1,338	5.63	3.74
Exercised	(40)	4.73	3.24
Cancelled/Revoked	(1,502)	9.48	6.51
May 31, 2001	2,853	Cdn$12.65	US$8.46
Exercisable at May 31, 2001	1,285	Cdn$15.88	US$10.61

During 1999, the Company issued 74,668 common shares with a weighted average exercise price of U.S. $4.87 pursuant to option agreements assumed in connection with the 20/20 acquisition. At May 31, 1999, no further options relating to these agreements are outstanding.

During 1999, the Company issued 191,337 common shares at U.S. $0.02665 per share in connection with options granted to third parties for services rendered to 20/20 that were assumed in connection with the 20/20 acquisition. At May 31, 1999, no further options relating to these agreements are outstanding.

12. Interest and Other and Depreciation and Amortization

	2001	2000	1999
Interest and other			
Interest on long-term debt	$ 266	$ 498	$ 810
Interest on obligations under capital lease	1,063	1,720	1,540
Interest and bank charges, net	583	453	1,992
Interest income	(4,455)	(7,163)	(2,097)
	$(2,543)	$(4,492)	$ 2,245
Depreciation and amortization			
Fixed assets	$13,043	$11,880	$ 8,643
Assets under capital lease	2,007	2,412	2,409
Goodwill	3,784	3,053	3,060
Practice management agreements	8,759	4,343	822
	$27,593	$21,688	$14,934

13. Income Taxes

Deferred income taxes consist of the following temporary differences:

	2001	2000	1999
Assets:			
Tax benefit of loss carryforwards			
Pre-acquisition	$ 8,034	$ 9,538	$11,785
Post-acquisition	12,913	6,453	6,094
Start-up costs	191	954	1,816
Fixed assets	1,362	--	--
Intangibles	2,444	819	--
Other	1,607	2,296	1,556
Valuation allowance	(24,849)	(14,210	(17,345)
	$1,702	$5,850	$3,906
Liabilities:			
Practice management agreements	$1,702	$1,848	$1,771
Fixed assets	--	4,002	2,135
	$1,702	$5,850	$3,906
	$--	$--	$--

As of May 31, 2001, the Company has non-capital losses available for carryforward for income tax purposes of approximately $53,765,000, which are available to reduce taxable income of future years.

The Canadian losses can only be utilized by the source company whereas the United States losses are utilized on a United States consolidated basis. The Canadian losses of $9,972,000 expire as follows:

2002	$1,202
2003	2,273
2004	1,468
2005	543
2008	4,486

The United States losses of $43,793,000 expire between 2011 and 2021. The Canadian and United States losses include amounts of $4,413,000 and $16,129,000 respectively relating to the acquisitions of 20/20 and BeaconEye, the availability and timing of utilization of which may be restricted.

The differences between the provision for income taxes and the amount computed by applying the statutory Canadian income tax rate to loss before income taxes and non-controlling interest were as follows:

	2001	2000	1999
Income tax recovery based on the Canadian statutory income tax rate of 43.2% (2000 – 44.6%; 1999 – 44.6%)	$(15,529)	$241	$(1,070)
Current year's losses not utilized	8,474	1,950	263
Expenses not deductible for income tax purposes	7,764	1,675	4,203
Adjustments of cash vs. accrual tax deductions for U.S. income tax	117	363	223
Utilization of prior year's losses	(118)	(1,675)	(2,355)
Corporate Minimum Tax, Large Corporations Tax and foreign tax	1,255	879	1,129
LLC's taxable income allocated to non-TLC members	(127)	(192)	(312)
Other	403	213	(61)
Provision for income taxes	$ 2,239	$3,454	$2,020

The provision for income taxes is as follows:

	2001	1999	1998
Current:			
Canada	$ 111		$34
United States – federal	929		1,441
United States – state	645		545
Other	554	89	--
	$ 2,239	$3,454	$2,020

14. Commitments and Contingencies

As of May 31, 2001, the Company has entered into operating leases for rental of office space and equipment, which require future minimum lease payments aggregating $28,555,000. Future minimum lease payments in aggregate and over the next five years are as follows:

2002	$7,577
2003	6,787
2004	6,308
2005	4,689
2006	3,194

As of May 31, 2001, the Company has entered into a three year lease agreement with a major laser manufacturer for the use of that manufacturer's lasers which require future minimum lease payments aggregating $9,938,000. Future minimum lease payments in aggregate and over the next three years are as follows:

2002	$4,500
2003	4,388
2004	1,050

One of the Company's subsidiaries, together with other investors, has jointly and severally guaranteed the obligations of an equity investee. Total liabilities of the equity investee under guarantee amount to approximately $2,405,000 at May 31, 2001.

15. Segmented Information

The Company has two reportable segments: refractive and other. The refractive segment is the core focus of the Company which reflects the provision of laser vision correction. The other segment includes an accumulation of non-core business activities including the management of secondary care centers which provide advanced levels of eye care, activities involving the development of eyeVantage.com as an internet based company and managed care (applicable only in 1999 and prior). In 1999, activity in the secondary care reflected a larger portion of the business activity and was presented as a separate segment. The disposal of the management of certain secondary care sites during 1999 has reduced the magnitude of activities from secondary care such that a separate segment for secondary care is no longer meaningful.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on operational components including paid procedures, net revenue after doctors' fees, fixed costs and income (loss) before income taxes.

Intersegment sales and transfers are minimal and are measured as if the sales or transfers were to third parties.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Most of the business units were acquired or developed as a unit and management at the time of acquisition was retained.

The Company's business segments are as follows:

2001	Refractive	Other	Total
Revenues and physician costs:			
Net revenues	$161,219	$12,787	$174,006
Doctor compensation	15,538	--	15,538
Net revenue after doctor compensation	$145,681	$12,787	$158,468
Expenses:			
Operating	134,507	15,168	149,675
Interest and other	(2,385)	(158)	(2,543)
Depreciation of capital assets and assets under capital lease	13,675	1,375	15,050
Amortization of intangibles	10,703	1,840	12,543
Restructuring and other charges	6,433	12,642	19,075
	162,933	30,867	193,800
Loss from operations	(17,252)	(18,080)	(35,332)
Income taxes	(1,779)	(460)	(2,239)
Non-controlling interest	(370)	(15)	(385)
Net loss	$(19,401)	$(18,555)	$(37,956)
Total assets	$244,090	$4,083	$248,173
Total fixed and intangible expenditures	$36,296	$140	$36,436

2000

	Refractive	Other	Total
Revenues and physician costs:			
Net revenues	$190,233	$10,990	$201,223
Doctor compensation	17,333	2	17,335
Net revenues after doctor compensation	$172,900	$10,988	$183,888
Expenses:			
Operating	153,729	12,477	166,206
Interest and other	(4,574)	82	(4,492)
Depreciation of capital assets and assets under capital lease	12,886	1,406	14,292
Amortization of intangibles	6,363	1,033	7,396
	168,404	14,998	183,402
Income (loss) from operations	4,496	(4,010)	486
Income taxes	(3,141)	(313)	(3,454)
Non-controlling interest	(2,443)	(563)	(3,006)
Net (loss)	$(1,088)	$(4,886)	$(5,974)
Total assets	$255,106	$39,085	$294,191
Total fixed and intangible expenditures	$65,941	$8,477	$74,418

1999	Refractive	Secondary Care	Other	Total
Revenues and physician costs:				
Net revenues	$132,428	$11,389	$3,093	$146,910
Doctor compensation	12,824	--	--	12,824
Net revenues after doctor compensation	$119,604	$11,389	$3,093	$134,08
Expenses:				
Operating	90,185	8,972	3,618	102,775
Interest and other	2,343	(125)	27	2,245
Depreciation of capital assets and assets under capital lease	9,804	986	262	11,052
Amortization of intangibles	2,546	1,201	135	3,882
Start-up and development expenses	--	--	3,606	3,606
Restructuring charges (non-cash portion - $11,167)	--	10,298	2,626	12,924
	104,878	21,332	10,274	136,484
Income (loss) from operations	14,726	(9,943)	(7,181)	(2,398)
Income taxes	(1,820)	--	(200)	(2,020)
Non-controlling interest	(800)	(376)	728	(448)
Net loss	$12,106	$(10,319)	$(6,653)	$(4,866)
Total assets	$264,817	$16,678	$4,151	$285,64
Total fixed and intangible expenditures	$25,803	$7,707	$2,026	$35,536

The Company's geographic segments are as follows:

2001	Canada	United States	Total
Revenues and physician costs:			
Net revenues	$18,114	$155,892	$174,006
Doctor compensation	1,698	13,840	15,538
Net revenue after doctor compensation	$16,416	$142,052	$158,468
Total fixed assets and intangibles	$22,039	$123,108	$145,147

2000	Canada	United States	Total
Revenues and physician costs:			
Net revenues	$17,275	$183,948	$201,223
Doctor compensation	2,876	14,459	17,335
Net revenue after doctor compensation	$14,399	$169,489	$183,888
Total fixed assets and intangibles	$22,195	$131,255	$153,450

1999	Canada	United States	Total
Revenues and physician costs:			
Net revenues	$16,247	$130,663	$146,910
Doctor compensation	2,583	10,241	12,824
Net revenue after doctor compensation	$13,664	$120,422	$134,086
Total fixed assets and intangibles	$18,895	$76,891	$95,786

16. Financial Instruments

Fair Value

The carrying values of cash equivalents, accounts receivable, accounts payable and accrued liabilities and income taxes recoverable (payable) approximates their fair values because of the short-term maturities of these instruments.

Given the large number of individual long-term debt instruments and capital lease obligations held by the Company, it is not practicable within constraints of timeliness and cost to determine fair value. However, the Company expects that if it were able to renegotiate such instruments at the current market rates available to the Company, it would obtain similar or more favorable terms given the Company's growth and current financial position.

The fair values of the Company's short-term investments are based on quotes from brokers. In fiscal 2001, the Company's short-term investment portfolio consisted substantially of corporate bonds that had remaining terms to maturity not exceeding three months.

Portfolio investments consist of the Company's investment in the common and preferred shares of LaserSight Incorporated (LaserSight Class C preferred shares held by the Company were automatically convertible to an equal number of common shares in June 2001) and the common shares of two other publicly traded companies (2000 – three). The fair value of the Company's portfolio investments, excluding the LaserSight Incorporated preferred shares, are based on quotes from brokers in the fair value information presented below:

	2001	2000
Short-term investments	$6,063	$--
Portfolio investments (cost: 2001 – $27,190 ; 2000 – $27,895)	$17,649	$23,444

The fair value of the Company's portfolio investment in Lasersight Incorporated 2.0 million preferred shares has been reflected at $4.00 per share based upon the fair value of the conversion feature to common shares.

Risk Management

The Company is exposed to credit risk on accounts receivable from its customers. In order to reduce its credit risk, the Company has adopted credit policies which include the analysis of the financial position of its customers and the regular review of credit limits. As of May 31, 2001, the Company had recorded an allowance for doubtful accounts of $1,160,000 (2000 – $2,849,000). The Company does not have a significant exposure to any individual customer, except for amounts due from those refractive and secondary eye practices which it manages and which are collateralized by the practice's patient receivables.

Cash accounts at the Canadian banks are insured by the Canadian Depository Insurance Corporation for up to Cdn.$60,000. In the United States, the Federal Deposit Insurance Corporation insures cash balances up to $100,000. As of May 31, 2001, bank deposits exceeded insured limits by $ 36,329,475 (2000 – $6,030,492).

The Company operates in Canada and the United States and is therefore exposed to market risks related to foreign currency fluctuations between these currencies. As well, there is cash flow exposure to interest rate fluctuations on debt carrying floating rates of interest.

17. Acquisitions

2001 Transactions

The following acquisitions have been accounted for by the purchase method and the results of operations have been consolidated from the respective purchase dates:

i. On August 21, 2000, the Company purchased 100% of the membership interests in Eye Care Management Associates, LLC ("Eye Care Mgmt. Assoc., LLC") in exchange for $4,000,000 in cash, 295,165 common shares of the Company with a value of $1,860,000 and amounts contingent upon future events. Contingent amounts are determined based on fees received by the Company pursuant to the Membership Purchase Agreement. Contingent amounts have been deemed to be compensation of the physicians associated with Eye Care Mgmt. Assoc., LLC. In fiscal 2001 no expense for contingent amounts have been reflected as the applicable pre-determined targets had not been achieved.

ii. During the first quarter of fiscal 2001, an additional 536,764 common shares of the Company, valued at $4,199,000, were issued to the sellers of The Vision Source, Inc. to reflect the final payment of contingent consideration which was determined to be payable during fiscal 2000 and which had been accrued for at May 31, 2000. On December 31, 1999, the earn-out period relating to the 1997 acquisition of 100% of The Vision Source, Inc. was completed. As a result, in fiscal 2000, 210,902 common shares of the Company with a value of $1,397,000, were released from escrow to the sellers of The Vision Source.

iii. During the first quarter of fiscal 2001, eyeVantage.com, Inc., an 83% subsidiary of the Company, paid $3,000,000 to fully satisfy an outstanding note payable which arose from the fiscal 2000 transaction in which eyeVantage.com, Inc. acquired the operating assets and liabilities of Optical Options, Inc., in exchange for shares of eyeVantage.com, Inc. with a value of $6,000,000, which were to be issued in connection with a proposed public offering of eyeVantage.com, Inc. shares. Since the public offering was not completed, the Company was required to issue two notes in favor of the sellers for $3,000,000 each, the first of which was satisfied in the second fiscal quarter of 2001 and the second note, which carries an interest rate of 8%, is payable in eight equal quarterly installments, the first of which was due on August 1, 2000. The August 1st payment was not made and the payment of this and future installments were under dispute at that time. In the third quarter of fiscal 2001, the Company accepted a proposal from the seller that would reduce the purchase obligation from $3,000,000 to $620,000. This reduced obligation was paid in the fourth quarter of fiscal 2001.

iv. During the first quarter of fiscal 2001, eyeVantage.com, Inc., an 83% subsidiary of the Company, did not make the initial installment on a $3,000,000 obligation which arose from the 2000 transaction in which eyeVantage.com, Inc. acquired the operating assets and liabilities of Eye Care Consultants, Inc. in exchange for shares of eyeVantage.com, Inc. with a value of $3,000,000 which were to be issued in connection with a proposed public offering of eyeVantage.com, Inc. shares. Since the public offering was not completed, the Company was required to make eight equal quarterly installments equaling $3,000,000, the first of which was due on June 30, 2000. The June 30th payment was not made and future installments are currently under dispute.

v. On March 2, 2001, the Company acquired certain assets and liabilities of a Maryland Professional Corporation ("Maryland PC") for $10,000,000 in cash and notes payable of a further $10,000,000 to be paid in four equal installments of $2,500,000 on the first four anniversary dates of the transaction. These notes payable do not carry an interest rate and as such have been discounted at a rate of 9% with the resulting $8,099,000 being reported as long term debt for financial statement purposes.

The total consideration on acquisitions was allocated to net assets acquired on the basis of their fair values as follows:

	Maryland PC	Eye Care Mgmt. Assoc., LLC	Other	Total
Current assets (including cash of $0)	$50	$--	$501	$551
Fixed assets	150	--	--	150
Goodwill	--	--	77	77
Practice management agreements	18,149	5,964	1,440	25,553
Non-controlling interest	--	--	(1,314)	(1,314)
	$18,349	$5,964	$704	$25,017
Funded by:				
Issuance of common shares	$--	$1,860	--	$1,860
Contribution of cash	10,000	4,000	587	14,587
Notes payable	8,099	--	--	8,099
Common shares to be issued	--	--	--	--
Acquisition costs	250	104	117	471
	$18,349	$5,964	$704	$25,017

2000 Transactions

The following acquisitions have been accounted for by the purchase method and the results of operations have been consolidated from the respective purchase dates:

(i) On June 30, 1999, the Company made a capital contribution of $1,002,000 representing a 50.1% interest in TLC USA LLC, the operating company, for activities of a strategic alliance with a subsidiary of Kaiser Permanente with the intention to initially own and operate three eye care centers in California and to eventually develop additional centers in markets in the United States where Kaiser Permanente has a significant presence.

(ii) On July 8, 1999, the Company acquired 50.1% of the operating assets and liabilities of Laser Eye Care of California, LLC with an investment of $11,200,000 in cash and certain operating assets and liabilities of the Company's two Californian eye care centers. Additional amounts were payable contingent upon achieving certain levels of profit. At December 31, 1999 at the completion of the earn-out period, the required levels of profit were met and an additional payment of $6,000,000 was made to complete the transaction.

(iii) On August 18, 1999, the Company acquired the laser vision correction assets of Laser Vision Consultants of Albany, P.L.L.C. in exchange for $1,000,000 cash and 30,000 common shares with a value of $728,000 which will be released equally over three years.

(iv) On December 17, 1999, eyeVantage.com, Inc., an 83% owned subsidiary of the Company, acquired the operating assets and liabilities of Eye Care Consultants, Inc. in exchange for $750,000 in cash, the assumption of $250,000 of liabilities and shares with a value of $3,000,000 in eyeVantage.com, Inc. in the course of a public offering of eyeVantage.com, Inc. shares. The value of $3,000,000 was non-interest bearing payable in cash as a result of the public offering not being completed within the guidelines set by the acquisition agreement. (See "17. Acquisitions – 2001 Acquisitions – iv")

(v) On December 31, 1999, the earn-out period relating to the 1997 acquisition of 100% of The Vision Source, Inc. was completed. 210,902 shares of the Company with a value of $1,397,000 as determined by the acquisition agreement were released from escrow to the sellers of The Vision Source, Inc. An additional 536,764 shares valued at $4,199,000 were issued in August 2001 to the sellers of The Vision Source, Inc. to reflect the final calculation of contingent amounts as determined by the earn-out formula.

(vi) On January 11, 2000, eyeVantage.com, Inc., an 83% subsidiary of the Company, acquired the operating assets and liabilities of Optical Options, Inc. in exchange for shares with a value of $6,000,000 in eyeVantage.com, Inc. in the course of a public offering of eyeVantage.com, Inc. shares. Since the public offering was not completed within the guidelines set by the acquisition agreement, the Company was required to issue two notes payable to the sellers for $3,000,000 each. During 2001, these amounts were renegotiated (See "17. Acquisitions – 2001 Acquisitions – iii.").

(vii) On February 15, 2000, the Company acquired the membership interests of New Jersey Practice Management LLC for $2,828,000 in cash and amounts contingent upon future events. $600,000 was being held in escrow for a period of one year subject to an adjustment of the purchase price determined by completion of the earn-out period and calculation of a contingent amount. Preliminary calculations subsequent to the completion of the earn-out period have resulted in the release of the $600,000 from escrow back to the Company due to not meeting the necessary earn-out requirements and finalization of any amounts subject to further clawback provisions is in process.

(viii) On March 31, 2000, the Company acquired certain assets of a physician's practice located in the state of New York ("New York Practice") in exchange for $11,860,000 in cash and common shares with a value of up to $3,000,000 contingent upon future events. Contingent amounts are determined based on fees received by the Company pursuant to an Administrative Services Agreement. In fiscal 2001, contingent amounts of $300,000 have been reported as operating expenses, based on pre-determined targets being achieved pursuant to the Administrative Services Agreement, and are payable at a future date.

(ix) On May 8, 2000, the Company acquired an 80% membership interest in Laser Eye Care of Torrance, LLC in exchange for $3,222,000 in cash through Laser Eye Care of California, LLC, a 50.1% subsidiary of the Company.

The total consideration on acquisitions was allocated to net assets acquired on the basis of their fair values as follows:

	Laser Eye Care of California	New York Practice	Other	Total
Current assets (including cash of $1,137)	$153	$--	$1,102	$1,255
Fixed assets	284	--	564	848
Assets under lease	1,807	--	--	1,807
Goodwill	--	--	15,588	15,588
Practice management agreements	16,852	12,006	7,802	36,660
Current liabilities	(146)	--	(913)	(1,059)
Long-term debt	--	--	(280)	(280)
Obligations under capital leases	(1,607)	--	--	(1,607)
Non-controlling interest	(868)	--	(1,078)	(1,946)
	$16,475	$12,006	$22,785	$51,266
Funded by:				
Issuance of common shares	$--	$--	$2,125	$2,125
Contribution of cash	16,000	11,860	7,445	35,305
Notes payable	--	--	9,000	9,000
Common shares to be issued	--	--	4,056	4,056
Acquisition costs	475	146	159	780
	$16,475	$12,006	$22,785	$51,266

1999 Transactions

The following acquisitions have been accounted for by the purchase method and the results of operations have been consolidated from the respective purchase dates:

i. On June 19, 1998, the Company made a 51% equity investment of $204,000 in cash in AllSight, Inc., a refractive laser center in the Pittsburgh, PA area.

ii. On July 1, 1998, TLC NorthWest Eye, Inc. a wholly-owned subsidiary of the Company, acquired in two separate transactions the operating assets and liabilities of the Figgs Eye Clinic in Yakima, Washington and the practice of Robert C. Bockoven with three locations in Washington, in exchange for cash and debt. Consideration was $750,000 for the Figgs Eye Clinic assets and liabilities and $725,000 for the practice of Robert C. Bockoven.

iii. On September 1, 1998, the Company acquired the 10% minority interest of Vision Institute of Canada in one of the Company s laser centers in Toronto in exchange for $332,000 in cash and common shares with a value of $332,000.

iv. On October 13, 1998, the Company acquired 90% of the operating assets and liabilities of WaterTower Acquisition, Inc. in exchange for cash of $625,000 and amounts contingent upon future events. No value will be assigned to these contingent amounts until completion of the earn out period and the outcome of the contingency is known. Contingent amounts are calculated based on a percentage of excess income over a target amount for the next three years and will be treated as additional purchase price once the amounts can be determined and the outcome appears probable. No amounts have been accrued regarding these contingent amounts because management does not believe that the required targets will be achieved.

v. On November 30, 1998, the Company acquired 85% of the operating assets and liabilities of Aspen HealthCare, Inc. for cash consideration of $3,800,000 and amounts contingent upon future events. The value is to be assigned to these contingent amounts once the amounts can be determined and the outcome appears probable. Contingent amounts are calculated based on meeting certain annual net income targets over five years. No amounts have been accrued regarding these contingent amounts because management does not believe that the required targets will be achieved.

vi. On January 5, 1999, the Company acquired 90% of the outstanding shares of Baltimore Practice Management, LLC in exchange for cash of $6,060,000 and an ownership interest in certain future refractive surgery centers. No value will be assigned to the ownership interest; however, the non-controlling interest percentage on future earnings attributable to these new refractive surgery centers will be reflected accordingly upon consolidation in the future.

vii. On March 1, 1999, the Company made a 51% capital contribution of $205,000 in cash in TLC The Laser Center (Green Bay/Milwaukee) LLC, which operates a laser center in the Green Bay, Wisconsin area.

During 1999, the Company completed transactions with doctor groups to enhance the network of optometrists and ophthalmologists in exchange for common shares with a value of $505,000. Miscellaneous acquisitions were completed in exchange for cash of $1,407,000.

The total consideration on acquisitions was allocated to net assets acquired on the basis of their fair values as follows:

Current assets (including cash	$2,261
Fixed assets	1,674
Goodwill	7,648
Practice management	6,060
Current liabilities	(621)
Long-term debt	(1,221)
Non-controlling interest	(476)
	$15,325

Funded by:	
Issuance of common shares	$837
Issuance of debt	738
Contribution of cash	13,465
Acquisition costs	285
	$15,325

18. Restructuring and Other Charges

Fiscal 2001

In fiscal 2001, the decisions were made to: (i) exit from e-commerce enterprise eyeVantage.com, Inc., (ii) reflect the potential for losses in an equity investment in a secondary care operation, (iii) identify the estimated costs associated with the Company's current restructuring initiative as well as the consulting costs closely associated with the restructuring initiative, (iv) segregate the amounts of an arbitration award against the Company and (v) provide for the impairment of a portfolio investment. The following charges were reported in connection with these divestitures and restructuring:

(a) The decision to close the activities at eyeVantage.com, Inc. resulted in a restructuring charge of $11.7 million which reflects the estimated impact of the write-down of goodwill of $8.7 million, loss/write down of fixed assets of $2.1 million, employee termination costs of $1.7 million representing the termination costs of 29 employees, accounts receivable losses of $0.4 million and $1.1 million of costs incurred in the closing process which includes legal costs and administrative costs. These losses are offset by a gain of $2.3 million resulting from the reduction in the purchase obligation associated with the Optical Options, Inc., acquisition (See "Note 17. Acquisitions – 2001 Transactions – iii.").

(b) The Company has provided $1.0 million for potential losses in amounts outstanding from an equity investment in a secondary care activity.

(c) The Company has closed three eye care centers, terminated plans for another and sold its ownership in another and has estimated losses of $1.8 million resulting from these decisions.

(d) The Company has undertaken an extensive review of internal structures, its marketplace, its resources and its strategies for the future. The review is resulting in the restructuring of the Company's goals and structures to meet its future needs. The Company has utilized the services of a national consulting firm to facilitate this internal restructuring process, whose participation in this assignment was completed in the third quarter with an associated cost of $1.6 million.

(e) The Company has provided $0.9 million for losses on portfolio investments in Vision America where it is felt that there has been a permanent impairment in the value of the Company's holdings.

(f) In the fourth quarter, an award from an arbitration hearing involving TLC Network Services Inc. was issued against TLC. The cumulative liability arising from the award was $2.1 million which has been fully provided for in the fourth quarter. Payment of this liability has been deferred until exploration of all legal alternatives has been completed.

In the year ended May 31, 2001, the Company provided for a total of $19.1 million of losses from restructuring and other charges. These losses consisted of cash payments of $4.7 million primarily for severance, lease costs, consulting services and closure costs and $14.4 million in non-cash costs. Non-cash costs were primarily for write-off of goodwill, fixed assets and current assets resulting from the decision to exit from its e-commerce enterprise, eyeVantage.com, Inc., the accrual for an arbitration award and provision for portfolio investments.

Fiscal 1999

In the last quarter of fiscal 1999, management made a decision to restructure operations in connection with its managed care and secondary care businesses. The following divestitures were completed in connection with this restructuring:

(a) On May 31, 1999, the Company sold certain assets of NorthWest Eye Inc. in exchange for the assumption of certain liabilities by the purchaser. In connection with the sale, the Company recorded a restructuring charge of $10,300,000 relating to the write-off of intangibles and amounts due from affiliated physician groups and decided not to continue with secondary care at this location.

(b) On April 27, 1999, the Company sold the fixed assets and intangibles of TLC The Laser Center (Wisconsin Management) Inc. and TLC Wisconsin Eye Surgery Center Inc. in exchange for 139,266 common shares of the Company. These assets had a net book value of $4,047,000 and no gain or loss was recorded in connection with the transaction. The shares received by the Company upon disposition of these subsidiaries were cancelled, with capital stock being reduced using the average value of common shares as at April 27, 1999 of Cdn.$6.26.

(c) On May 19, 1999, the Company sold all of the assets of its managed care subsidiary to the former management of the subsidiary. The Company incurred a loss on the sale of $2.6 million.

19. Supplemental Cash Flow Information

Non-cash transactions:

	2001	2000	1999
Issue of warrants to be expensed over three years	$--	$532	$--
Capital stock issued as remuneration	35	387	600
Capital stock issued for acquisitions	6,059	2,125	837
Reversal of accrual for costs of IPO	--	139	--
Accrued purchase obligations	3,899	13,200	738
Capital lease obligations relating to equipment	--	1,366	645
Long-term debt cancellation	450	--	--

Cash paid for the following:

	2001	2000	1999
Interest	$1,668	$2,671	$4,342
Income taxes	$148	$5,647	$978

20. Subsequent Events

On August 27, 2001, the Company announced that it had entered into an Agreement and Plan of Merger with Laser Vision Centers, Inc. ("Laser Vision"). Laser Vision provides access to excimer lasers, microkeratomes, other equipment and value added support services to eye surgeons for laser vision correction and the treatment of cataracts. The merger will be effected as an all-stock combination at a fixed exchange rate of 0.95 common shares of the Company which is expected to result in the issuance of approximately 24.6 million of the Company's common stock. In addition, the Company will assume and convert existing outstanding options or warrants to acquire stock of Laser Vision based on the 0.95 exchange rate and expects to be issuing approximately 7.4 million options or warrants to acquire common shares of the Company. The merger will be accounted for under the purchase method. Completion of the transaction, expected to occur in December, 2001, is subject to shareholder and regulatory approval and other conditions usual and customary in such transactions.