



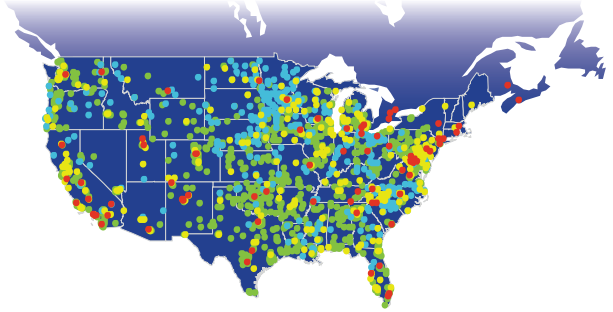
Seeing *Results*:

TLC Vision®

2004 Annual Report
and Form 10-K

At a Glance

TLC*Vision*[®] is North America's premier eye care services company, providing eye doctors with the technology and services needed to deliver high-quality eye care. With a network of 13,700 doctor relationships, we maintain leading positions in the Refractive, Cataract and Optometric Services markets. We also participate in an emerging eye care market, Dry AMD, with a significant ownership position in OccuLogix, Inc.



The company's common shares trade on the NASDAQ National Market under the symbol "TLCV" and on the Toronto Stock Exchange under the symbol "TLC."

● Corporate Owned/Managed Refractive Centers
 ● Refractive Access Sites
● Mobile Cataract Sites
 ● Vision Source! Locations

Market Leader

Refractive Surgery ■

TLC Laser Eye Centers[®] and Laser*Vision*[®]:
73% of revenues

- No. 1 corporate and mobile provider in the United States
 - Refractive services: centers and access
 - Strategically located with 400 locations
 - 73 centers in 33 of the top 50 U.S. markets
 - 327 access locations
- 196,400 LASIK procedures in 2004: 15% market share



Cataract Surgery ■

Midwest Surgical ServicesSM (MSS) and OR Partners[®]: 21% of revenues

- MSS is the No. 1 outsource provider in the United States
 - Cataract services: mobile and fixed
 - 407 sites in 42 states
 - 43,700 procedures in 2004
 - 5-year compound annual procedure growth rate: 29%
- OR Partners is an ambulatory surgery center (ASC) business
 - Owns/operates 5 ASCs

Optometric Services ■

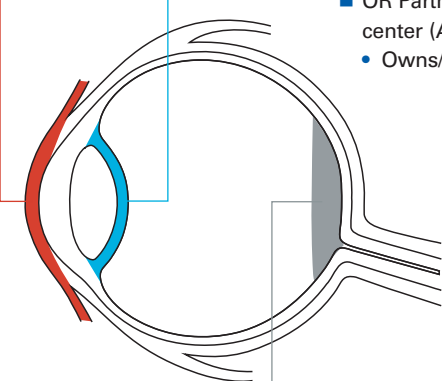
Vision Source!SM: 6% of revenues

- No. 1 private practice optometric network in the United States
- 1,182 private practices in 46 states
- TLCV owns 51% of equity outstanding

Dry AMD ■

OccuLogixTM offers a treatment for Dry AMD, currently in FDA Phase III trials

- Dry AMD is an emerging eye care market with no current treatments available
- Target market: 13 million patients with 1 million new cases each year
- TLCV owns 51% of equity outstanding



Financial Results

In millions, except per share and volume amounts

Year ended December 31	2003	2004	Increase
Refractive Surgical Procedures	176,100	196,400	11.5%
Total Revenues	\$ 195.7	\$ 242.2	24%
Consolidated Results as Reported:			
Net Income (Loss)	\$ (9.4)	\$ 43.7	\$53.1
Earnings Per Share (Fully Diluted)	\$ (0.15)	\$ 0.61	\$0.76
Operating Cash Flow Per Share	\$ 0.07	\$ 0.50	\$0.43
Cash and Short-Term Investments	\$ 30.3	\$ 144.5	376%
Operating Results Before AMD Business:*			
Net Income (Loss)	\$ (7.3)	\$ 20.5	\$27.8
Earnings Per Share (Fully Diluted)	\$ (0.11)	\$ 0.29	\$0.40
Operating Cash Flow Per Share	\$ 0.07	\$ 0.52	\$0.45
Cash and Short-Term Investments	\$ 30.3	\$ 84.4	178%

* Before the consolidation of OccuLogix, Inc., RHEO Clinic, the costs of the AMD business and gain on the sale of OccuLogix shares.

Investment Highlights

Leading Market Positions

- No. 1 market position in most markets served
- Diversified eye care services company: refractive, cataract, optometry and AMD
- Multiple service models: centers, mobile and private practice
- Participation in an emerging eye care market: AMD

Effective Medical Model: Refractive Surgery

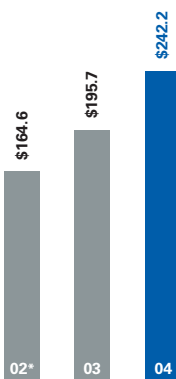
- U.S. industry
 - Market potential: 110 million procedures
 - Only 7% market penetration
- TLC*Vision*
 - Pioneered the industry in 1991
 - Performed 1.3 million procedures to date
 - Driven by 13,700 doctor relationships
 - Highest CustomLASIK penetration

Strong Financial Performance

- Strong growth in refractive and other health care businesses
- Record net income in 2004
- Significant cash generation
- Low debt levels
- Well positioned to grow the business

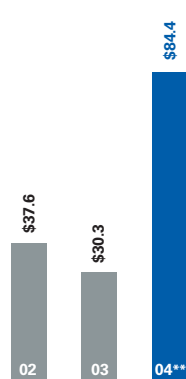
Revenue

(in millions)

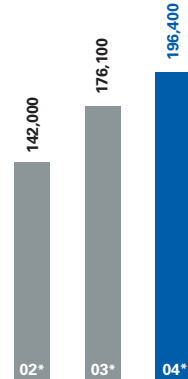


Cash and Short-Term Investments

(in millions)



Total Refractive Surgical Procedures



* unaudited ** without AMD consolidation

To Our Shareholders



James C. Wachtman
President and Chief Executive Officer

2004 was a remarkable year for TLC Vision Corporation. We achieved record operating *results* fueled by impressive growth from each of our business segments. We gained momentum in the marketplace by leveraging our 13,700 doctor relationships and expanded our market position in our key eye care businesses.

Among our major achievements of 2004, we:

- Generated double-digit revenue growth across all business segments
- Achieved record net income of \$44 million
- Improved our core business cash position to \$84.4 million
- Completed the initial public offering of OccuLogix, Inc.

TLC *Vision* has leading market positions in all of the market segments in which we compete, and we are clearly *seeing results!*

Strong Financial Results

For the year ended December 31, 2004, total revenues for TLC *Vision* climbed 24% to \$242.2 million, with all our business segments contributing to this growth. Revenues from our core refractive surgery business grew 21% to \$177.4 million, or 73% of the company's total net revenues. Refractive is the world's most commonly performed elective surgery, and TLC *Vision* is the market leader.

Revenues from our other health care businesses increased 31% to \$64.8 million, led by an 84% increase from our ambulatory surgery center (ASC) business. Each of our businesses in this segment offers very strong growth prospects, and

we are working to capitalize on the opportunities in this segment in 2005 and beyond.

During fiscal 2004, the company's net income climbed to a record \$43.7 million, or \$0.61 per share, a year-over-year improvement of \$53.1 million, or \$0.76 per share. Excluding the contribution from our age-related macular degeneration (AMD) business segment and the gain on the sale of OccuLogix stock, earnings per share reached \$0.29 for the year. As importantly, our operating cash flow per share increased to \$0.52, excluding AMD consolidation, from \$0.07 in 2003.

These strong cash flows continue to strengthen our financial position. We ended the year with cash and short-term investments totaling \$84.4 million for the core business, a 178% improvement over our balances at the beginning of the year.

TLC *Vision* generated a stock market value gain of 60% in 2004 for our shareholders, as the share price increased from \$6.50 per share at the beginning of the year to \$10.42 at year-end.

Our healthy balance sheet and strong cash flow give us the flexibility to invest for growth to enhance long-term shareholder value. Even with

the share price appreciation we have seen over the last several years, we believe that investing in our company at current levels still offers a superior return for our shareholders. The Board of Directors has authorized the repurchase of up to 2 million of the company's common shares outstanding.

Solid Operating Results

Refractive Bill Leonard, president of Refractive Services, and his team achieved strong growth in our core refractive business during 2004, with total paid laser procedures increasing 11.5% over the prior year to 196,400 procedures. In our centers business, same-store procedure volume grew 18.3% for the year, outperforming the industry average of 16.7%. At year-end, our procedure volume mix was 60% centers and 40% access, which underscores the continued focus on our centers business where we can gain the most profitability.

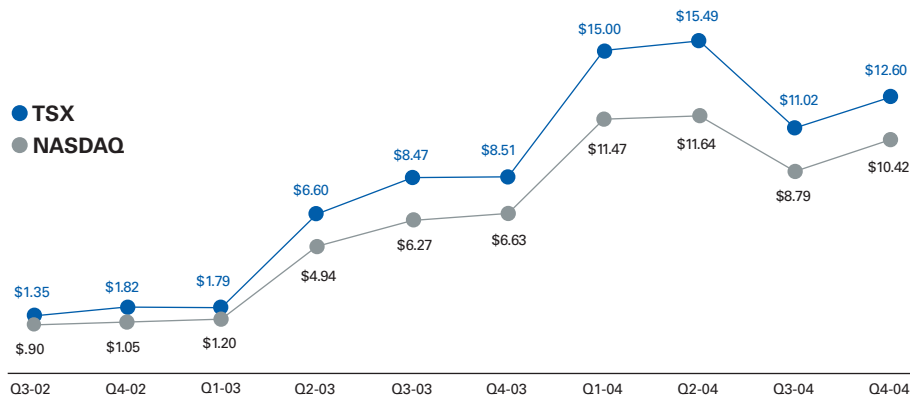
CustomLASIK procedures continued to support our strong operating performance and deliver superior patient outcomes. By year-end, we reached our target with CustomLASIK procedures accounting for 58% of center volumes — up from 43% the prior year-end. We anticipate continued growth in CustomLASIK volumes as more patients and doctors learn of the benefits of this technology.

TLC Laser Eye Centers was founded on the philosophy of co-management, and 10 years later our affiliation with optometry is stronger than ever. Thousands of affiliated optometrists choose to co-manage their patients with TLC, for the quality of our clinical education and our patient care. We continue to support this profession through educational programs and as a member of the Ophthalmic Council of the American Optometric Association.

Cataract Jim Tiffany, president of MSS, led this business, focused on cataract technology access, though another tremendous year in 2004. Procedure volume increased to 43,700 procedures in 2004, contributing record EBITDA and net income performance. Revenues derived from our ASC business grew 84% in 2004 thanks to several acquisitions, and we are very excited about the continuing prospects for this business. Diversifying into non-elective cataract surgeries, that are not driven by economic conditions, provides a stable platform for cash generation. We will continue to grow this business both organically and through additional mobile and ASC investments in 2005.

Optometric Services With 1,182 private practices in 46 states, we are the leading network of independent optometric practices and are well

Stock Price



positioned to continue expanding. We provide such services as purchasing, marketing and practice development to our Vision Source! affiliates.

AMD Over the last several years, *TLCVision* has invested approximately \$7 million in an emerging technology with enormous potential, and nurtured it through the early stages of development. That business, now called OccuLogix, Inc., went public in December 2004, receiving the highest IPO valuation for an early-stage life sciences company for the year. With the OccuLogix IPO, our company was substantially rewarded for our early support and continued commitment, receiving net proceeds of \$26 million in return for shares that were sold during the offering. Even after that sale, we continue to retain a 51% ownership of the company, valued at \$219 million as of the 2004 year-end.

OccuLogix's future prospects are exciting, with FDA Phase III clinical trials expected to wrap up at the end of 2005. Elias Vamvakas, OccuLogix's chairman and chief executive officer, and his team are working diligently to have the infrastructure in place to commercialize the business. In an emerging eye care market with no competition, even single-digit market penetration could potentially generate significant annual revenues.

Management Changes

During 2004, we announced a number of changes in senior management. In advance of the initial public offering of OccuLogix, Elias Vamvakas relinquished his position of chief executive officer of *TLCVision* to allow him to focus his day-to-day efforts on the newly formed company. I was appointed to succeed him in the role of chief executive officer, having spent nine years with *LaserVision* and the merged *TLCVision*, most recently as president.



From left: James C. Wachtman, president and chief executive officer; Steven P. Rasche, chief financial officer and treasurer; and Brian L. Andrew, general counsel and secretary.

In connection with the successful completion of the integration of TLC Laser Eye Centers and *LaserVision* following the May 2002 merger to form *TLCVision*, several key executives retired. John J. (Jack) Klobnak, who had served as chairman and chief executive officer of *LaserVision* prior to the merger, retired from the Board of Directors. Robert W. May, vice-chairman and general counsel of *LaserVision* prior to joining *TLCVision*, retired as general counsel and secretary of the company. B. Charles (Chuck) Bono III, who joined the company from *LaserVision* where he served as executive vice president, chief financial officer and treasurer, also retired. We thank these exceptional executives for their years of dedication and their leadership during the successful post-merger integration.

Succeeding these executives, Steven P. Rasche was appointed chief financial officer and treasurer, bringing to the company over 20 years of financial experience in corporate and public accounting firm settings. Brian L. Andrew joined the company as general counsel and secretary, bringing over 27 years of health care industry and in-house and private practice legal experience.

At the beginning of the year, Toby S. Wilt was appointed to the Board of Directors, replacing John F. Riegert who retired. Mr. Wilt is chairman of privately held Christie Cookie Company and a member of the boards of Outback Steakhouse, Inc. and 1st Source Corporation. We also thank Mr. Riegert for his years of invaluable service and leadership to the company.

Finally, we mourn the passing in early February 2005 of Dr. W. David Sullins Jr., a highly respected



member of our Board of Directors since 1995 and valued member of the company's Clinical Advisory Group. Dr. Sullins was a leader in his profession and a pioneer in developing the

TLC *Vision* co-management business model. His personal integrity, passion and deep commitment will be truly missed.

Strategies for Continued Growth

Going forward, we will build on the momentum achieved in 2004, with strategic initiatives in place to drive additional growth and increased profitability, leveraging our strong financial position to increase shareholder value.

Our primary focus for long-term growth is continuing to invest in our core refractive business, particularly in our highly profitable centers, driving same-store growth with increased procedure volume and operational efficiencies. With current geographic coverage in 33 of the top 50 U.S.

markets, we plan to expand our centers business into additional key markets in 2005 through joint ventures with market-leading surgeons.

We look for solid growth in our other health care business segment, through a combination of organic growth and strategic acquisitions. For 2005, we have targeted several new ASC acquisitions and de novo development opportunities. Our goal is to continue to grow this segment of our business to diversify our product offerings and provide a better balance with our refractive business.

Finally, with advanced technologies and treatments emerging every day, we continue to seek opportunities in new eye care segments that can provide long-term growth opportunities.

Outlook for the Future

With our leading market positions in major eye care services markets and a significant position in an emerging AMD market, TLC *Vision* is firmly poised for continued success. Fueled by our strong financial performance, disciplined operating system, broad geographic coverage and experienced management team, we are clearly focused on executing our growth strategies to enhance shareholder value.







This is truly an exciting time for TLC *Vision*. We thank our shareholders for their ongoing support and confidence, and acknowledge our employees for their untiring efforts and dedication to the success of our company.

A handwritten signature in black ink that reads "James C. Wachtman". The signature is fluid and cursive, with the first name being the most prominent.

James C. Wachtman
President and Chief Executive Officer
April 2005

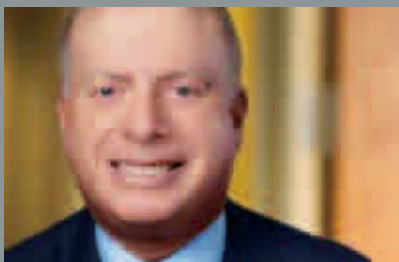
Industry Overview

Eye care in the United States is an enormous industry, estimated at \$40 billion annually. At TLC*Vision*, we operate in major industry segments, including the \$2.3 billion refractive and the \$5 billion cataract segments.

Refractive Surgery	Cataract Surgery	Optometric Services
 <p>No. 1 Corporate Provider</p>  <p>No. 1 Mobile Provider</p>	 <p>No. 1 Outsource Provider</p>  <p>Emerging Business</p>	 <p>No. 1 Private Practice O.D. Network</p> <div data-bbox="1024 737 1442 793" style="background-color: #0056b3; color: white; text-align: center; padding: 2px;">Dry AMD</div>  <p>Emerging Technology</p>

Unique Doctor-Driven Service Model

TLC*Vision* has a unique service model driven by some 13,700 doctor relationships. These relationships are leveraged across the various market segments in which we operate. We provide an array of industry-leading services to affiliated eye care professionals, including patient acquisition, facilities management and development, mobile services, shared equity and practice services, and access to the latest technology without a major capital investment and responsibility for maintenance.



“As a TLC surgeon for 10 years, I continue to be impressed with their ongoing focus on quality assurance and improvement. Their standard of quality and service helps me in providing outstanding patient outcomes and to assure co-managing doctors of the best quality care for their patients.”

Mark E. Whitten, M.D.
 Medical Director, TLC Laser Eye Centers
 Rockville, MD
 TLC*Vision* Clinical Advisory Group

What could you and Tiger Woods have in common?
LASIK vision correction.



Four-time Masters Champion Tiger Woods, a satisfied TLC Laser Eye Centers patient since 1999: *"It's hard to believe that it's been five years since my LASIK procedure, I'm still seeing 20/20 with no contacts. Dr. Whitten and the staff at TLC Rockville made me feel comfortable, they provided me with the information that I needed and wanted to know. I'm very happy with the result and grateful for my TLC Laser Eye Centers experience."*

Hundreds of golf professionals, including teaching professionals, PGA and LPGA players, have chosen TLC for their laser vision correction. In our refractive surgery business, market research shows that 83% of new patients rely on doctor referrals and word of mouth from previous patients as the most important source of advice when considering refractive surgery.

Review of Operations

Refractive Surgery Market ... Seeing *Results*

Refractive eye surgery, our core business, ranks as the world's most widely performed elective surgery, with 16 million procedures performed worldwide to date. According to a comprehensive industry study, estimated procedure volume grew 16.7% to 1.3 million in 2004.

The potential U.S. market for refractive is enormous and underpenetrated — now estimated at 110 million procedures with only 7% penetration to date. Consumer interest in laser vision correction continues to climb, with nearly 60% of interested candidates planning to have the procedure within the next two years, according to a consumer study conducted by a major laser manufacturer. TLC*Vision*, a pioneer in the refractive industry since 1991, is the leading provider of laser vision correction in North America, with more than 1.3 million procedures performed since inception.



TLC*Vision* refractive volumes continued to enjoy strong growth in 2004 with total paid laser procedures increasing 11.5% to more than 196,000 procedures for the year. Our refractive business accounted for 73% of total company revenues in 2004.



Louis Probst, M.D.

Medical Director, TLC Laser Eye Centers
Chicago, IL
TLC*Vision* Clinical Advisory Group

“As a TLC surgeon and medical director for the last 10 years, I have been consistently impressed with the commitment of TLC Laser Eye Centers to provide the best experience and technology for every patient. To be the top eye care provider, I have to provide the best service ... and TLC has allowed me to do that.”



"Giving patients an improved quality of vision is an extraordinary gift and an enormous responsibility. TLCVision and I share this common passion. Working with a company for over 10 years which is as dedicated as I am to correcting vision has been a wonderful experience."

Eric Donnenfeld, M.D.

Medical Director, TLC Laser Eye Centers
Garden City, NY
TLCVision Clinical Advisory Group





“We’ve been associated with TLC for two years and already we’re drawing patients from a 200-mile radius. Our partnership with TLC has been rewarding for us and all our affiliate doctors who care deeply about patient outcomes. Daily, we’re working together to change lives for the better.”

Richard Noyes, O.D.
Iowa Eyecare
Marion, IA

To address the needs of the refractive market, we employ two distinct service models — centers and access. With higher margin contributions, we are focusing on our centers business to be a major factor in the company’s long-term growth and profitability. Reflecting this emphasis in 2004, our procedure volume mix shifted to 60% in our centers and 40% in our access business.

Centers Approach Our TLC Laser Eye Centers® subsidiary, established in 1994, operates 73 corporate owned or managed locations in 30 states, representing 33 of the top 50 major markets in the United States.

Through our centers business, we approach the refractive market with a proven and profitable medical model. It includes our distinguished co-management strategy, renowned medical directors, on-site clinical director (O.D.) and skilled staff. They are supported by a centralized call center, highly integrated information systems and focused consumer marketing initiatives. We rank as the leading LASIK provider to the country’s largest eye care vision benefit plan, which helps drive business in our centers.

Throughout 2004, CustomLASIK procedures continued to gain in share of the procedure mix, climbing to 58% of center volumes at year-end compared to an industry average of 43%. This more favorable volume mix, together



with the higher pricing associated with the CustomLASIK procedure, contributed to our improved operating performance. Going forward, anticipated new FDA approvals and continuing doctor acceptance favor continued growth in CustomLASIK penetration.

Compared to the value-priced retail model of our corporate competitors, the company’s premium-priced medical model is driven by doctor referral which currently provides 60% of our centers business.

Recent industry research validates our medical model approach. According to a 2004 refractive surgery report, a doctor recommendation is the single most important consideration when deciding to have laser vision correction,

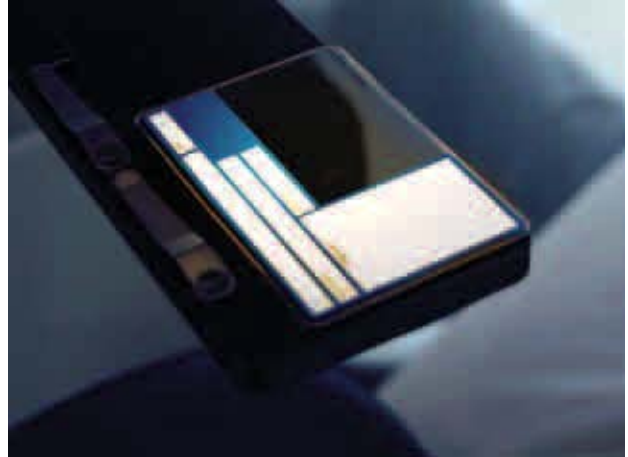
and a doctor referral is the primary method for selecting an eye surgeon. We are proud to work with thousands of TLC affiliated optometrists, who are the cornerstone of our co-management model. No other provider in this industry works as extensively with the optometric profession.

Potential patients consider the opinion of friends and family to be nearly as important as a source of advice and finding a doctor. Our more than 1 million former patients provide tremendous word-of-mouth leverage to lead patients to our centers and affiliated surgeons, making patient outcomes and satisfaction extremely critical. During the year, we conducted a survey of TLC Laser Eye Centers patients and found exceptional loyalty levels — 99% of respondents would refer family members and friends to TLC.

Access Approach Our LaserVision® subsidiary provides cost-effective and convenient access to laser equipment at 327 fixed or mobile access sites in 45 states. Our successful access model accounted for 40% of the refractive procedures performed in 2004.

LaserVision pioneered the laser access industry in 1991, operating centers in Canada and Europe prior to FDA approval in the United States, and was first to develop a system to share excimer lasers among multiple sites.

Today, LaserVision is the leading provider of mobile refractive services, providing advanced laser technology to eye surgeons, together with technical support, remote



marketing practice support and education/clinical development support designed to maximize their clinical and business success. The proven access model provides eye surgeons with state-of-the-art technology while eliminating a major upfront capital outlay, responsibility for maintenance and the risk of technological obsolescence.

Leverage Profitability TLCVision's highly leveraged, fixed-cost refractive business model is driven by total procedure volumes and procedure mix. As procedure volumes surpass the breakeven level, the additional procedure volumes contribute directly to the net income of the company.

Learn more about our refractive businesses at www.tlcvision.com and www.laservision.com.



Mary T. Green, M.D.
Eye Excellence
Houston, TX

“Working through the LaserVision subsidiary, I know the quality of service this company provides and the commitment to their doctor customers. When I heard about the OR Partners subsidiary and the great work they were doing in ASCs, it just made sense to continue the relationships already built with TLCVision.”

Cataract Surgery Market ... Seeing Results

Cataract surgery is the world's most widely performed non-elective surgery, with an estimated 2.6 million procedures performed in 2004 in the United States. Reimbursement rates have stabilized and procedure volume is projected to grow industrywide for 2005. Today, cataracts affect nearly 20.5 million Americans age 40 and older, and it is estimated that more than half of all Americans will develop cataracts during their lifetimes.

The cataract industry is a highly fragmented business with surgical services delivered at both hospitals and ambulatory surgery centers (ASC). TLC*Vision* addresses this market with both outsource and ASC service models, totaling 412 sites in 42 states and 375 surgeons.

Outsource Service Model Midwest Surgical ServicesSM, Inc. (MSS) is the No. 1 outsource provider for cataract services in the United States. We partner with hospitals and local doctors to provide patients with high-quality cataract surgery close to home. Founded in 1991, MSS provides the instruments and equipment, necessary surgical supplies and certified surgical technicians in both mobile or fixed sites. Our outsource model enables rural hospitals and optometrists to offer a quality surgery program and increase their patient volumes, while allowing patients to avoid the expense and inconvenience of traveling to a larger community for treatment.

ASC Service Model Through our OR Partners[®] subsidiary, we manage the staffing, business operations and financial reporting of doctor-owned ASCs, allowing surgeons to concentrate on patient care. ASCs offer high-quality outpatient surgery services in an atmosphere that is less institutional than a hospital setting. With a proven equity business model, this subsidiary partners with physicians to ensure the operation is well capitalized, staffed with experienced professionals and committed to achieving *results*. OR Partners' array of development and management services extends from project feasibility and strategic assessment, to development and construction, to clinical operations and business management.

We continue to acquire, develop and manage ASCs in association with some of the country's most prominent physicians — partnering with surgeons to improve the practice. This approach broadens our eye care services strategy, contributing to our cash flow and profitability, and appeals to doctors seeking improved efficiencies and the highest level of patient satisfaction.

To date, we have invested in five ASCs and we plan to continue looking for other opportunities. In seeking suitable acquisitions, our goal is 25-75% ownership and immediately accretive operations.

Learn more about our outsource and ASC cataract businesses at www.ms-services.com and www.orpartners.com.



S. Gregory Smith, M.D.
Delaware Eye Surgeons, P.A.
Wilmington and Seaford, DE

“Based on my favorable experience working with LaserVision over the years, I decided to partner with the organization in building an ambulatory surgery center. Their experience, preparedness, commitment to detail and fairness gives me great confidence that we will have a top-notch facility in short order.”



"I have developed a busy and satisfying rural surgical practice by working with MSS over the past four years. I operate in a rural hospital, with skilled and knowledgeable technicians, and use better equipment and instrumentation than what is available to me in metropolitan hospitals. MSS is excellence in personnel and equipment."

Martin J. Balish, M.D.
Oregon Eye Specialists, P.C.
Portland, OR





Optometric Services Market ... Seeing *Results*

Optometrists in the United States provide 80% of primary eye care, performing an estimated 70 million eye exams each year. These eye care professionals, 39% of whom operate independent optometric practices, serve as the primary gatekeepers for vision care plans. TLC*Vision* owns 51% of Vision Source!SM, the nation's largest private practice optometric network with 1,182 affiliated practices in 46 states, comprising over 10% of all private practice O.D.s. Over the past five years, Vision Source! has achieved average annual growth of 17%, adding over 200 affiliated locations each year.

Vision Source! provides affiliated optometrists with competitive purchasing, management and marketing services,

practice development support, continuous clinical education and comprehensive staff training programs. With the combined purchasing power of a nationwide network, Vision Source! doctors are able to better control their materials costs and offer their patients excellent value on name brand frames, eyeglass lenses, contact lenses and solutions.

Affiliated O.D. practices pay the company recurring franchise fees for these support services, based on a predetermined percentage of gross sales. In 2004, fees received by Vision Source! accounted for 6% of total company revenues.

Learn more about our private practice O.D. network at www.visionsource.com.



"My practice has doubled in size in the past five years thanks to Vision Source! and TLC. For doctors who want to be on the cutting edge and offer the best in patient care, TLC is the obvious partner. In the current climate, I truly appreciate their support and commitment to the advancement of the private practice O.D."

Scott Lewis, O.D.
California Oaks Vision Center –
Your Vision Source
Murrieta, CA

THE NEED FOR NEW TREATMENTS FOR DRY AMD PERFECTLY CLEAR

AMD is a chronic, progressive disease of the macula, the portion of the retina that provides the sharpest central vision. Dry AMD causes a gradual deterioration of the macular tissue and results in difficulty with everyday tasks such as reading and driving.

Dry AMD Market ... Seeing *Results*

Age-related macular degeneration (AMD) is the leading cause of late onset visual impairment and legal blindness in adults over the age of 50. AMD affects the central vision of the eye while leaving the peripheral vision intact, making it difficult to perform routine daily activities like driving a car or watching TV.

Dry AMD, the most prevalent form of the disease, accounts for 85-90% of all AMD cases and now affects approximately 13 million people in the United States. Each year, more than 1 million people are newly diagnosed with Dry AMD.

There is no cure for Dry AMD, and while no current treatment is available, TLC*Vision* is investing in emerging technology that could potentially improve or stop the progression of this disease in millions of people.

Exciting Technology RHEO™ (Rheopheresis) is a patented procedure that treats the underlying cause of Dry AMD, not merely the symptoms. Using proprietary filtration technology, this therapeutic procedure removes excess amounts of specific large proteins and fatty particles in the blood that have been associated with Dry AMD. Researchers believe that the RHEO process improves the micro-vascular circulation of the filtered blood through the tiny capillaries of the eye to more effectively supply the cells of the retina with oxygen and nutrients. RHEO therapy consists of eight treatments, lasting two to four hours each, conducted over a period of 10 to 12 weeks.

Currently, success in treating AMD often is only measured by a slowdown or halt in the progression of the disease. In contrast, RHEO is the only emerging technology to treat the underlying cause of the disease rather than just its symptoms. An interim analysis of MIRA-1 (Multi-center Investigation of Rheopheresis of AMD), the FDA pivotal (Phase III) trial, demonstrated compelling results in stabilizing or even improving vision in some Dry AMD patients.

Successful IPO Over the past two years, TLC*Vision* and its investment partners have funded the development of RHEO technology. As RHEO gained increasing attention during the year, we began to explore structural alternatives to maximize the value of this business for the company and its shareholders. In December 2004, TLC*Vision* received net proceeds of \$26 million as a selling shareholder in the initial public offering of OccuLogix, Inc., a therapeutic company focused on Dry AMD. We continue to be a significant shareholder in this emerging business with a 51.4 percent ownership interest at year-end.

Going forward, RHEO therapy is poised for commercialization, addressing an unmet medical need with limited barriers to adoption for physicians and other providers. No other competitive products are currently in trials. Once approved for use in the United States, the RHEO procedure can be easily and widely implemented in a variety of settings, from hospitals and ambulatory surgery centers to dialysis clinics and private practices.

Learn more about this emerging eye treatment technology at www.occulogix.com.

Board of Directors

Elias Vamvakas

*Chairman of the Board
TLC Vision Corporation*

Mr. Vamvakas co-founded TLC Vision Corporation and has served as chairman since 1994 and as chief executive officer from 1994 until 2004. He is also the chairman and chief executive officer of OccuLogix, Inc., an ophthalmic therapeutic company founded to commercialize innovative evidence-based treatments for eye diseases. (Director since 1994.)

Thomas N. Davidson

*Chairman
NuTech Precision Metals Inc.
Chairman
Quarry Hill Group*

Mr. Davidson is chairman of NuTech Precision Metals Inc., a manufacturer of high performance metal fabrications, and of Quarry Hill Group, a private investment holding company. He is a director of several Canadian and U.S. public companies, including Canada Publishing Corporation, Derlan Industries Ltd. and Luxembourg-Cambridge Holding Co. (Director since 2000.)

Richard L. Lindstrom, M.D.

*Medical Director
TLC Vision Corporation
Medical Director
Midwest Surgical Services, Inc.*

Dr. Lindstrom is medical director of TLC Vision Corporation and its Midwest Surgical Services, Inc. subsidiary. He is founder of Minnesota Eye Consultants and an attending surgeon at the Phillips Eye Institute and Minnesota Eye and Laser Surgery Center in Minneapolis. (Director since 2002.)

Warren S. Rustand

*Partner
Harlingwood Equity Partners*

Mr. Rustand is a partner with Harlingwood Equity Partners, a private equity fund focused on leveraged build-ups and consolidations. He formerly served as chairman and/or chief executive officer of seven publicly traded or private companies, and has served on the boards of over 40 public, private and non-profit organizations. (Director since 1997.)

James C. Wachtman

*President and Chief Executive Officer
TLC Vision Corporation*

Mr. Wachtman has served as president and chief executive officer of TLC Vision Corporation since 2004. He formerly served as president and chief operating officer of Laser Vision Centers, Inc. and, with the merger of the two companies in 2002, was named president and chief operating officer of TLC*Vision*. (Director since 2004.)

Toby S. Wilt

*Chairman
Christie Cookie Company*

Mr. Wilt is chairman of Christie Cookie Company, a privately held manufacturer of gourmet cookies. He is also president of TSW Investment Company, a private investment firm. He is currently a director of Outback Steakhouse, Inc. and 1st Source Corporation. (Director since 2004.)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2004

COMMISSION FILE NUMBER: 0-29302

TLC VISION CORPORATION
(Exact name of registrant as specified in its charter)

NEW BRUNSWICK, CANADA
(State or jurisdiction of
incorporation or organization)

980151150
(I.R.S. Employer Identification No.)

5280 SOLAR DRIVE, SUITE 300
MISSISSAUGA, ONTARIO
(Address of principal executive offices)
Registrant's telephone, including area code:

L4W 5M8
(Zip Code)
(905) 602-2020

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Shares, No Par Value

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2004, the aggregate market value of the registrant's Common Shares held by non-affiliates of the registrant was approximately \$746.1 million.

As of March 11, 2005, there were 70,174,000 shares of the registrant's Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Definitive Proxy Statement for the Company's 2005 annual shareholders meeting (incorporated in Part III to the extent provided in Items 10, 11, 12 and 13).

This Annual Report on Form 10-K (herein, together with all amendments, exhibits and schedules hereto, referred to as the "Form 10-K") contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which statements 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 as a result of certain factors, including those set forth elsewhere in this Form 10-K. See "Item 1. Business - Risk Factors" for cautionary statements identifying important factors with respect to such forward-looking statements, including certain risks and uncertainties, that could cause actual results to differ materially from results referred to in forward-looking statements. Unless the context indicates or requires otherwise, references in this Form 10-K to the "Company" or "TLCVision" shall mean TLC Vision Corporation and its subsidiaries. During 2002, the Company changed its fiscal year end from May 31 to December 31. Therefore, references in this Form 10-K to "fiscal 2002" shall mean the 12 months ended May 31, 2002 and "transitional period 2002" shall mean the seven months ended December 31, 2002. References to "\$" or "dollars" shall mean U.S. dollars unless otherwise indicated. References to "C\$" shall mean Canadian dollars. References to the "Commission" shall mean the U.S. Securities and Exchange Commission.

PART I

ITEM 1. BUSINESS

OVERVIEW

TLC Vision Corporation (formerly TLC Laser Eye Centers Inc.) is a diversified eye care services company dedicated to improving lives through better vision by providing eye doctors with the tools and technologies they need to deliver high quality patient care. The majority of the Company's revenues come from refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company's business models include arrangements ranging from owning and operating fixed site centers to providing access to lasers through fixed site and mobile service relationships. In addition to refractive surgery, the Company is diversified into other eye care businesses. Through its Midwest Surgical Services, Inc. ("MSS") subsidiary, the Company furnishes hospitals and independent surgeons with mobile or fixed site access to cataract surgery equipment and services. Through its OR Partners, Aspen Healthcare and Michigan subsidiaries, *TLCVision* develops, manages and has equity participation in single-specialty eye care ambulatory surgery centers and multi-specialty ambulatory surgery centers. The Company also owns a 51% majority interest in Vision Source, which provides franchise opportunities to independent optometrists. The Company is also a 51% majority owner of OccuLogix, Inc. (formerly Vascular Sciences Corporation), a public company focused on the treatment of a specific eye disease known as dry age-related macular degeneration, via rheopheresis, a process for filtering blood.

In accordance with an Agreement and Plan of Merger with Laser Vision Centers, Inc. ("LaserVision"), the Company completed a business combination with LaserVision on May 15, 2002. LaserVision is a leading access service provider of excimer lasers, microkeratomes and other equipment and value and support services to eye surgeons. The merger enabled the combined companies to provide a broader array of services to eye care professionals to support these individuals in providing superior quality of care and achieve outstanding clinical results. The Company believes this will be the long-term determinant of success in the eye surgery services industry.

The Company focuses on three main strategic initiatives: (1) continue to leverage our core refractive business, through same store growth in centers, expand into new markets through shared equity relationships, and continue to protect our access base; (2) grow our non-refractive businesses MSS, OR Partners and Vision Source; and (3) expand into new eye care segments. Financial information about the Company's business segments is contained in Note 17 "Segment Information" to the consolidated financial statements.

REFRACTIVE DISORDERS

The eye is a complex organ composed of many parts, and normal vision requires these parts to work well together. When a person looks at an object, light rays are reflected from the object to the cornea. In response, the cornea and lens refract and focus the light rays directly on the retina. At the retina, the light rays are converted to electrical impulses that are transmitted through the optic nerve to the brain, where the image is translated and perceived.

Any deviation from normal vision is called a refractive error. Myopia, hyperopia, astigmatism and presbyopia are different types of refractive errors.

- Myopia (nearsightedness) means the eye is longer than normal resulting in difficulty seeing distant objects as clearly as near objects.

- Hyperopia (farsightedness) means the eye is shorter than normal resulting in difficulty seeing near objects as clearly as distant objects.
- Astigmatism means the cornea is oval-shaped resulting in blurred vision.
- Presbyopia is the loss of lens and eye muscle flexibility, due to the natural aging process, that causes difficulty in focusing on near objects and usually requires people age 40 and older to wear bifocals or reading glasses. Because vision correction surgery cannot reverse the aging process, presbyopia cannot be corrected surgically; however, there are surgical and non-surgical techniques available that can effectively manage presbyopia.

TREATMENT FOR REFRACTIVE DISORDERS

Eyeglasses. Eyeglasses remain the most common method of correcting refractive errors because they are safe and relatively inexpensive. Eyeglasses correct nearsightedness and farsightedness by using appropriate lenses to diverge or converge light rays and focus them directly on the retina. The drawbacks of eyeglasses are possible dissatisfaction with personal appearance, inability to participate in certain sports or work activities and possible distortion in visual images when eyeglasses are used to correct large refractive errors.

Contact Lenses. Contact lenses correct nearsightedness, farsightedness and astigmatism similarly to eyeglasses. If fitted and used as directed, contact lenses are an effective and safe way to correct refractive errors. However, daily use of contact lenses can result in the increased risk of corneal infections, hypersensitivity reactions and other problems.

Surgical Procedures. Vision correction surgery is an elective procedure available to correct refractive errors. Vision correction surgery alters the way light rays are focused directly on the retina to eliminate or dramatically reduce the need for eyeglasses or contact lenses. Vision correction surgery is not for everyone and is associated with potential risks and complications. Prospective patients should carefully consider the vision correction surgeries available and the benefits and risks associated with each of them. Vision correction surgeries available at TLC*Vision* include:

- LASIK (Laser In Situ Keratomileusis). LASIK corrects nearsightedness, farsightedness and astigmatism by using an excimer laser to reshape the cornea. Because LASIK creates a corneal flap to reshape the cornea and does not disrupt the front surface of the cornea, it generally is less painful, has a quicker recovery period and shorter post-operative need for steroid eye drops than other surgical procedures. LASIK is currently the most common vision correction surgery and may be the treatment of choice for patients desiring a more rapid visual recovery.
- CustomLASIK, widely introduced in 2003, is a technologically supported advancement to LASIK. CustomLASIK involves increased pre-operative diagnostic capabilities that measure the eye from front to back using “wavefront” technology to create a three dimensional corneal map. The information from that map guides the laser in customizing the laser ablation to an individual’s visual irregularities, beyond myopia, hyperopia and astigmatism. CustomLASIK using wavefront technology has the potential to improve not only how much a person can see, in terms of visual acuity measured by the standard 20/20 eye chart, but also how well an individual can see in terms of contrast sensitivity and fine detail. This translates to a reduced occurrence of night vision disturbances post-LASIK.
- PRK (Photorefractive Keratectomy). PRK corrects nearsightedness, farsightedness and astigmatism by using an excimer laser to reshape the cornea without making a flap. PRK removes the protective surface layer of the cornea to reshape the cornea. The risk of pain, infection and corneal scarring is higher with PRK than with LASIK; however, the intra-operative risks are lessened with PRK because no corneal flap is created.
- LASEK (Laser Assisted Sub-Epithelial Keratectomy). LASEK corrects nearsightedness, farsightedness and astigmatism by using an excimer laser to reshape the cornea. Unlike LASIK that creates a corneal flap, LASEK loosens and folds the protective outer layer of the cornea (the epithelium) during the procedure and, as a result, combines the advantages of LASIK with the safety of PRK. The risk of pain, infection and corneal scarring is higher with LASEK than with LASIK; however, the intra-operative risks are lessened with LASEK because the flap which is created is only in the epithelium. The United States Food and Drug Administration has not yet approved use of the excimer laser for LASEK.
- AK (Astigmatic Keratotomy). AK corrects astigmatism by making microscopic incisions in the cornea to relax and change the shape of the cornea.
- INTACS. INTACS corrects very low levels of nearsightedness (–1.00 diopters to –3.00 diopters) by implanting rings in the cornea to reshape it rather than surgically altering the cornea. INTACS may also be used to correct irregularities in the shape of the cornea.

- CK (Conductive Keratoplasty). For patients age 40 and older, CK is designed for the temporary reduction of farsightedness (+.75 to +3.25 diopters) and uses radio frequency instead of a laser to reshape the cornea.
- PTK (Phototherapeutic Keratectomy). PTK treats abrasions, scars or other abnormalities of the cornea caused by injury or surgery. PTK uses an excimer laser to remove superficial opacities and irregularities of the cornea to improve vision or reduce symptoms of pain or discomfort due to an underlying eye condition.
- Refractive IOL Procedures. Intraocular lenses (IOL's) are permanent or semi-permanent, plastic lenses that are implanted to replace or supplement the eye's natural crystalline lens. While not a common procedure for correcting refractive errors, the placement of a refractive IOL can help patients who are not candidates for LASIK. IOL's have been used in the United States since the late 1960's to restore visual function to cataract patients, and more recently are being used in refractive surgery procedures. There are several types of refractive IOL's: phakic IOL's, multi-focal IOL's and accommodating IOL's. Patient suitability and quality of visual outcome for each of these lens options varies.

LASER CORRECTION PROCEDURES

Excimer laser technology was developed by International Business Machines Corporation in 1976 and has been used in the computer industry for many years to etch sophisticated computer chips. Excimer lasers have the desirable qualities of producing very precise ablation (removal of tissue) without affecting the area outside of the target zone. In 1981, it was shown that the excimer laser could ablate corneal tissue. Each pulse of the excimer laser can remove 0.25 microns of tissue in 12 billionths of a second. The first laser experiment on human eyes was performed in 1985 and the first human eye was treated with the excimer laser in the United States in 1988.

Excimer laser procedures are designed to reshape the outer layers of the cornea to treat vision disorders by changing the curvature of the cornea. Prior to the procedure being performed, the doctor develops a treatment plan taking into consideration the exact correction required utilizing the results of each individual patient's eye examination and diagnostic tests performed, such as topography and wavefront analysis. The treatment plan is entered into the laser and the software of the excimer laser then calculates the optimal number of pulses needed to achieve the intended corneal correction using a specially developed algorithm. These procedures are performed on an outpatient basis using only topical anesthetic eye drops that promote patient comfort during the procedure. Patients are reclined in a chair, an eyelid holder is inserted to prevent blinking, and the surgeon positions the patient in direct alignment with the fixation target of the excimer laser. The surgeon uses a foot switch to apply the excimer beam that emits a rapid succession of excimer laser pulses. The typical procedure takes 10 to 15 minutes from set-up to completion, with the length of time of the actual excimer laser treatment lasting between 15 to 90 seconds, depending on the amount of correction required.

In order to market an excimer laser for commercial sale in the United States, the manufacturer must obtain pre-market approval ("PMA") from the United States Food and Drug Administration ("FDA"). An FDA PMA is specific for each laser manufacturer and model and sets out a range of approved indications. However, the FDA is not authorized to regulate the practice of medicine. Therefore, in the same way that doctors often prescribe drugs for "off-label" uses (i.e., uses for which the FDA did not originally approve the drug), a doctor may use a device such as the excimer laser for a procedure or an indication not specifically approved by the FDA, if that doctor determines that it is in the best interest of the patient. The initial FDA PMA approval for the sale of an excimer laser for refractive procedures was granted in 1995 for the laser of Summit Technologies, Inc. (now Alcon Laboratories, Inc., a division of Nestle, S.A.). That first approval was for the treatment of myopia. To date, the FDA has approved for sale excimer lasers from approximately seven different manufacturers for LASIK and from approximately eight different manufacturers for PRK, including VISX, Inc. the market leader and the provider of most of the Company's excimer lasers. In Canada and Europe, neither the sale nor the use of excimer lasers to perform refractive surgery is currently subject to regulatory approval, and excimer lasers have been used to treat myopia since 1990 and to treat hyperopia since 1996. The Company expects that future sales of any new excimer laser models in Canada may require the approval of the Health Protection Branch of Health Canada.

THE REFRACTIVE MARKET

While estimates of market size should not be taken as projections of revenues or of the Company's ability to penetrate that market, Market Scope's October 2004 Comprehensive Report on the Refractive Market estimates that the 2005 refractive market potential is 37% of the U.S. population or 110.5 million people. To date, based on Market Scope's estimate of the number of people who have had procedures, only an estimated 7% of this target population has had laser vision correction.

Estimates by Market Scope indicate that 1.2 million laser vision correction procedures were performed in the U.S. in 2002, 1.1 million were performed in 2003, 1.3 million were performed in 2004, and an estimated 1.4 million will be performed in 2005. The Company believes that the profitability and growth of its refractive business will depend upon continued increasing acceptance of

laser vision correction in the United States and, to a lesser extent, Canada, and upon consumer confidence and the condition of the U.S. economy.

There can be no assurance that laser vision correction will be more widely accepted by eye care doctors or the general population as an alternative to existing methods of treating refractive disorders. The acceptance of laser vision correction may be affected adversely by its cost (particularly since laser vision correction is typically not covered fully or at all by government insurers or other third party payors and, therefore, must be paid for primarily by the individual receiving treatment), concerns relating to its safety and effectiveness, general resistance to surgery, the effectiveness of alternative methods of correcting refractive vision disorders, the lack of long-term follow-up data and the possibility of unknown side effects. There can be no assurance that long-term follow-up data will not reveal complications that may have a material adverse effect on the acceptance of laser vision correction. Many consumers may choose not to have laser vision correction due to the availability and promotion of effective and less expensive nonsurgical methods for vision correction. Any future reported adverse events or other unfavorable publicity involving patient outcomes from laser vision correction procedures also could adversely affect its acceptance whether or not the procedures are performed at *TLCVision* eye care centers. Market acceptance also could be affected by regulatory developments. The failure of laser vision correction to achieve continued increased market acceptance would have a material adverse effect on the Company's business, financial condition and results of operations.

MARKET FOR CATARACT SURGERY

According to the American Academy of Ophthalmology, cataract surgery currently is the most frequently performed non-elective surgical procedure in the United States, with more than 2.6 million people having cataract surgery each year. Medicare pays approximately \$3.4 billion annually for 1.7 million patients having cataract surgery. According to the American Academy of Ophthalmology, individuals between the ages of 52 and 64 have a 50% chance of having a cataract. By age 75, almost everyone has a cataract. Fifty percent of the people between the ages of 75 and 85 with cataracts have lost some vision as a result. The National Eye Institutes of Health Cataracts indicates that cataracts are the leading cause of blindness in the world, and cataracts affect more than 20 million Americans aged 65 and older. U.S. Census Bureau data indicates that there are approximately 35 million Americans who are age 65 or older.

TLC VISION CORPORATION

TLCVision was originally incorporated by articles of incorporation under the Business Corporations Act (Ontario) on May 28, 1993. By articles of amendment dated October 1, 1993, the name of the Company was changed to TLC The Laser Center Inc., and by articles of amendment dated March 22, 1995, certain changes were effected in the issued and authorized capital of the Company with the effect that the authorized capital of the Company became an unlimited number of Common Shares. On September 1, 1998, TLC The Laser Center, Inc. amalgamated under the laws of Ontario with certain wholly owned subsidiaries. By articles of amendment filed November 5, 1999, the Company changed its name to TLC Laser Eye Centers Inc. On May 13, 2002, the Company filed articles of continuance with the province of New Brunswick and changed its name to TLC Vision Corporation. On May 15, 2002, the Company completed its business combination with LaserVision, a leading U.S. provider of access to excimer lasers, microkeratomes, cataract equipment and related support services.

BUSINESS STRATEGY

TLCVision's business strategy is to be a diversified eye care services company, leveraging its relationships with over 13,000 ophthalmologists and optometrists throughout North America to 1) grow the core refractive business while 2) continuing to expand the non-refractive business segment.

GROWING THE CORE REFRACTIVE BUSINESS

The company will focus on growing the core refractive business through increasing surgical volume through existing TLC branded centers, expanding the TLC branded center model to new markets and supporting our access customer base. The primary tactic in increasing surgical volume will be through various initiatives with ophthalmologists and optometrists.

To accomplish this, *TLCVision* will focus on:

- commitment to a co-management model, which allows primary care doctors to provide the best clinical outcomes for their patients while retaining them in their practice;

- continuing clinical education to ophthalmologists and optometrists;
- quality patient outcomes support through the *TLCVision* quality assurance and improvement system;
- practice development education and tools focused on educating the staff of the ophthalmologists and optometrists;
- cooperative marketing/advertising programs to build awareness for the procedure;
- access to emerging technologies, and
- selected expansion into new and existing markets.

DIVERSIFICATION BEYOND REFRACTIVE LASER BUSINESSES

TLCVision's diversification strategy is to expand into a broader eye care services company through internal business development and complementary acquisitions. The Company believes it can continue to leverage its relationships with a large number of ophthalmologists and optometrists to create new business opportunities. The primary focus of the Company's diversification strategy is in the United States, where the Company continues to position itself to benefit from the growing market for eye care services.

TLCVision plans to further diversify its business in four ways:

- continuing to expand the Company's existing cataract service business, MSS, through focused growth strategies and acquisitions of existing mobile cataract businesses;
- continuing to develop the Company's optometric practice franchising organization, Vision Source, through increasing the number of affiliated practice franchises;
- continuing to develop or acquire ophthalmic ambulatory surgery centers through the Company's OR Partners subsidiary; and
- developing new eye care related businesses that evolve from strategic technology investments, such as OccuLogix, Inc., a company focused on the treatment of a specific eye disease known as dry age-related macular degeneration which completed its initial public offering in December 2004.

DESCRIPTION OF BRANDED *TLCVISION* LASER EYE CENTERS

The Company currently owns and manages 73 *TLCVision* branded laser eye centers in the United States, five centers in Canada and one in Europe. Each *TLCVision* branded laser eye center has a minimum of one excimer laser with many of the centers having two or more lasers. The majority of the Company's excimer lasers are manufactured by VISX Incorporated ("VISX").

A typical *TLCVision* branded laser eye center has between 3,000 and 5,000 square feet of space and is located in a medical or general office building. Although the legal and payment structures can vary from state to state depending upon state law and market conditions, the Company generally receives revenues in the form of (1) amounts charged patients for procedures performed at laser centers, (2) management and facility fees paid by doctors who use the *TLCVision* branded laser eye center to perform laser vision correction procedures and (3) administrative fees for billing and collection services from doctors who co-manage patients treated at the centers. Most *TLCVision* branded laser eye centers have a clinical director, who is an optometrist and oversees the clinical aspects of the center and builds and supports the network of affiliated eye care doctors. Most centers also have a receptionist, ophthalmic technicians and patient consultants. The number of staff depends on the activity level of the center. One senior staff person, who is designated as the executive director of the center, assists in preparation of the annual business plan and supervises the day-to-day operations of the center.

TLCVision has developed proprietary management and administrative software and systems designed to assist eye care professionals in providing high levels of patient care. The software permits *TLCVision* branded laser eye centers to provide a potential candidate with current information on affiliated doctors throughout North America, to help them locate the closest *TLCVision* branded laser eye center, to permit tracking of calls and procedures, to coordinate patient and doctor scheduling and to produce financial and surgical outcome reporting and analysis. The software has been installed in all *TLCVision* branded laser eye centers. *TLCVision* also has an on line consumer consultation site on its website (www.tlcvision.com). This consumer consultation site allows consumers to

book their consultation with the Company online. *TLCVision* also maintains a call center (1-800-CALL TLC VISION), which is staffed seven days a week.

The Company's "Lifetime Commitment" program, established in 1997 and offered through *TLCVision* branded laser eye centers, entitles patients within a certain range of vision correction to have certain enhancement procedures for further correction at no cost at any time during their lifetime, if necessary. To remain eligible for the program, patients are required to have an annual eye exam, at the patient's expense, with a *TLCVision* affiliated doctor. The purpose of the program is to respond to a patient's concern that the patient's sight might regress over time, requiring an enhancement procedure. In addition, the program responds to the doctors' concern that patients may not return for their annual eye examination once their eyes are treated. The Company believes that this program has been well received by both patients and doctors.

PRICING

At *TLCVision* branded laser eye centers in the United States, patients are typically charged between \$1,500 and \$2,500 per eye for LASIK (or on average approximately \$2,000 per eye). The Company typically charges an additional \$350 to \$500 per eye for custom ablation. At *TLCVision* branded laser eye centers in Canada, patients are typically charged approximately C\$1,700 per eye for LASIK. The primary care eye doctor also charges patients an average of \$400 or 20% of the patient fee for pre- and post-operative care, though the total procedure costs to the patients are often included in a single invoice. See "Item 1 - Business - Risk Factors - Procedure Fees." Although competitors in certain markets continue to charge less for these procedures, the Company believes that important factors affecting competition in the laser vision correction market, other than price, are quality of service, reputation and skill of surgeon, customer service reputation, and relationships with affiliated doctors. See "Item 1 - Business - Risk Factors - Competition."

The cost of laser vision correction procedures is not covered by provincial health care plans in Canada or reimbursable under Medicare or Medicaid in the United States. However, the Company believes it has positioned itself well in the private insurance and employer market through its Corporate Advantage program, which offers discounts to participants and is now available to more than 90 million individuals.

CO-MANAGEMENT MODEL

The Company has developed and implemented a medical co-management model under which it not only establishes, manages and operates *TLCVision* branded laser eye care centers and provides an array of related support services, but also coordinates the activities of primary care doctors (usually optometrists), who co-manage patients, and refractive surgeons (ophthalmologists), who perform laser vision correction procedures in affiliation with the local center. The primary care doctors assess whether patients are candidates for laser vision correction and provide pre- and post-operative care, including an initial eye examination and follow-up visits. The co-management model permits the surgeon to focus on providing laser vision correction surgery while the primary care doctor provides pre- and post-operative care. In addition, most *TLCVision* branded laser eye care centers have an optometrist on staff who works to support and expand the local network of affiliated doctors. The staff optometrist provides a range of clinical training and consultation services to affiliated primary care doctors to support these doctors' individual practices and to assist them in providing quality patient care. See "Item 1 - Business - Government Regulation - Regulation of Optometrists and Ophthalmologists."

TLCVision believes that its strong relationships with its affiliated eye care doctors, though non-exclusive, represent an important competitive advantage for its branded laser eye care centers.

The Company believes that primary care doctors' relationships with *TLCVision* and the doctors' acceptance of laser vision correction enhances the doctors' practices. The affiliated eye doctors (usually optometrists) charge fees to assess candidates for laser vision correction and provide pre- and post-operative care, including an initial eye examination and follow-up visits. The primary care doctor's potential revenue loss from sales of contact lenses and eyeglasses may be offset by professional fees earned from both laser vision correction pre- and post-operative care and examinations required under the Company's "Lifetime Commitment" program.

SALES AND MARKETING

The Company also seeks to increase its refractive procedure volume and its market penetration through other innovative marketing programs for the *TLCVision* branded laser eye care centers, particularly in developing stronger relationships with optometrists.

While *TLCVision* believes that many myopic and hyperopic people are potential candidates for laser vision correction, these procedures must compete with corrective eyewear and surgical and non-surgical treatments for myopia and hyperopia. The decision to have laser vision correction largely represents a choice dictated by an individual's desire to reduce or eliminate their reliance on eyeglasses or contact lenses.

The Company markets to doctors, corporations and directly to the public. A large part of the Company's marketing resources are devoted to joint marketing programs with affiliated doctors. The Company provides doctors with brochures, videos, posters and other materials that help them educate their patients about laser vision correction. Those doctors who wish to market directly to their patients or the public may receive support from the Company in the development of marketing programs.

The Company believes that the most effective way to market to doctors is to be perceived as a leader in the eye care industry. To this end, the Company strives to be affiliated with clinical leaders, educate doctors on laser vision and refractive correction and remain current with new procedures, technology and techniques. See "Item 1 - Business - Ancillary Businesses and Support Programs." The Company also promotes its services to doctors in Canada and the United States through conferences, advertisements in journals, direct marketing, its web sites and newsletters.

The Company believes that as market acceptance for laser vision correction increases, competition among surgical providers will continue to grow and many candidates for laser vision correction will increasingly select a provider based on factors other than solely price.

TLC*Vision* has also developed marketing programs directed primarily at large employers and third party providers to provide laser vision correction to their employees and participants through a TLC*Vision* branded laser eye center. Participating employers may partially subsidize the cost of an employee's laser vision correction at a TLC*Vision* branded laser eye care center and the procedure may be provided at a discounted price. The Company has more than 1,500 participating employers. In addition, more than 90 million individuals qualify for the program through arrangements between TLC*Vision* and third party providers. See "Item 1 - Business - Risk Factors - Inability to Execute Strategy; Management of Growth."

Tiger Woods, world-famous golfer and TLC Laser Eye Centers patient, serves as spokesperson for the Company in marketing efforts, including those aimed directly to the public. The Company uses a variety of traditionally accepted advertising, direct marketing and public relations efforts to reach potential patients. The Company maintains a comprehensive Internet strategy with the goal of having a leading refractive presence on the Internet, through TLC*Vision*-owned websites and partnerships and sponsorships with other websites. To date, the Company continues to rank in the top placement for various LASIK-related search terms through the major search engines.

OWNERSHIP OF BRANDED EYE CARE CENTERS

The Company's branded laser eye centers are typically owned and operated by subsidiaries of the Company. The Company has no ownership interest in the doctors' practices or professional corporations that TLC*Vision* manages on behalf of doctors or that have access to a TLC*Vision* branded laser eye center to perform laser vision correction services.

CONTRACTS WITH EYE DOCTORS

In each market where the Company operates a branded laser eye center, the Company works with a network of eye care doctors (mostly optometrists) who perform the pre-operative and post-operative care for patients who have had laser vision correction. Those doctors then co-manage their patients with affiliated surgeons in that the surgeon performs the laser vision correction procedure itself, while the optometrist performs the pre-operative screening and post-operative care. In most states, co-management doctors have the option of charging the patient directly for their services or having the Company collect the fees on their behalf.

Most surgeons performing laser vision correction procedures through a TLC*Vision* branded laser eye center owned, managed or operated by the Company do so under one of three types of standard agreements (as modified for use in the various U.S. states as required by state law). Each agreement typically prohibits surgeons from disclosing confidential information relating to the center, soliciting patients or employees of the center, or participating in any other eye care center within a specified area. However, although certain affiliated surgeons performing laser vision correction at the Company's branded laser eye centers have agreed to certain restrictions on competing with, or soliciting patients or employees associated with the Company, there can be no assurance that such agreements will be enforceable. See "Item 1 - Business - Risk Factors - Dependence on Affiliated Doctors."

Surgeons must meet the credentialing requirements of the state or province in which they practice and must receive training approved by the manufacturer of the laser on which they perform procedures. Surgeons are responsible for maintaining appropriate malpractice insurance and most agree to indemnify the Company and its affiliates for any losses incurred as a result of the surgeon's negligence or malpractice. See "Item 1 - Business - Risk Factors - Potential Liability and Insurance."

Most states prohibit the Company from practicing medicine, employing physicians to practice medicine on the Company's behalf or employing optometrists to render optometric services on the Company's behalf. Because the Company does not practice medicine or optometry, its activities are limited to owning and managing eye care centers and affiliating with other health care providers. Affiliated doctors provide a significant source of patients for laser vision correction at the Company's centers. Accordingly, the success of the Company's operations depends upon its ability to enter into agreements on acceptable terms with a sufficient number of health care providers, including institutions and eye care doctors, to render surgical and other professional services at facilities owned or managed by the Company. There can be no assurance that the Company will be able to enter into or maintain agreements with doctors or other health care providers on satisfactory terms or that such agreements will be profitable to the Company. Failure to enter into or maintain such agreements with a sufficient number of qualified doctors will have a material adverse effect on the Company's business, financial condition and results of operations.

DESCRIPTION OF SECONDARY EYE CARE CENTERS

The Company has an investment in three secondary eye care centers in the United States. A secondary care center is equipped for doctors to provide advanced levels of eye care, which may include eye surgery for the treatment of disorders such as glaucoma, cataracts and retinal disorders. Generally, a secondary care center does not provide primary eye care, such as eye examinations, or dispense eyewear or contact lenses. Sources of revenue for secondary care centers are direct payments by patients as well as reimbursement or payment by third party payors, including Medicare and Medicaid.

DESCRIPTION OF LASER ACCESS BUSINESS

OVERVIEW

LaserVision, TLC*Vision's* wholly owned subsidiary, provides access to excimer laser platforms, microkeratomes, other equipment and value-added support services such as training, technical support and equipment maintenance to eye surgeons for the treatment of nearsightedness, farsightedness and astigmatism primarily in the United States. LaserVision's delivery system utilizes both mobile equipment, which is routinely moved from site to site in response to market demand, and fixed site locations. LaserVision believes that its flexible delivery system enlarges the pool of potential locations, eye surgeons and patients that it can serve, and allows it to effectively respond to changing market demands. LaserVision also provides a broad range of support services to the eye surgeons who use its equipment, including arranging for training of physicians and staff, technical support and equipment maintenance, industry updates and marketing advice, clinical advisory support, patient financing, partnership opportunities and practice satelliting. As of December 31, 2004, LaserVision was utilizing approximately 81 excimer lasers and 160 microkeratomes in connection with its laser access businesses.

Eye surgeons pay LaserVision a fee for each procedure the surgeon performs using LaserVision's equipment and services. LaserVision typically provides each piece of equipment to many different eye surgeons, which allows LaserVision to more efficiently use the equipment and offer it at an affordable price. LaserVision refers to its practice of providing equipment to multiple eye surgeons as shared access.

LaserVision's shared access and flexible delivery system benefits eye surgeons in a variety of ways, including the ability to:

- avoid a large capital investment;
- reduce the risks associated with buying high technology equipment that may become obsolete;
- obtain technical support provided by LaserVision's laser engineers and microkeratome technicians;
- use the equipment without responsibility of maintenance or repair;
- cost-effectively serve small to medium-sized markets and remote locations; and
- serve satellite locations even in large markets.

FLEXIBLE DELIVERY SYSTEM

LaserVision seeks to maximize the number of locations, eye surgeons and patients that can utilize its access and related services and respond quickly to changing market demand by utilizing a flexible delivery system that features both mobile and fixed site locations.

LaserVision's mobile access systems are typically used by eye surgeons who perform fewer than 30 procedures per month or are in markets where they are able to offer consolidated surgery days to patients. A certified laser technician accompanies each excimer laser from location to location. If an eye surgeon uses LaserVision's microkeratomes, LaserVision generally supplies one microkeratome,

one accessory kit and a second LaserVision employee, who is certified by the microkeratome manufacturer and acts as a surgical technician.

Mobile laser equipment is provided by means of a proprietary "Roll-On/Roll-Off" laser system. The Roll-On/Roll-Off laser system, elements of which have been patented, consists of an excimer laser mounted on a motorized air suspension platform. The Roll-On/Roll-Off laser system is transported between locations in a specifically modified truck and allows an excimer laser to be easily moved upon reaching its destination. Due to the design of the Roll-On/Roll-Off system, the laser usually requires only minor adjustments and minimal set-up time at each destination. As of December 31, 2004, LaserVision had 32 Roll-On/Roll-Off systems in operation, all but one of which were located in the United States.

LaserVision's fixed site lasers are dedicated to single locations where eye surgeons typically perform more than 40 cases per month over several surgery days to maintain a competitive offering for patients. As of December 31, 2004, LaserVision had approximately 43 U.S. fixed sites and two European fixed sites. Some fixed sites exclusively serve single practice groups and others are located in ambulatory surgery centers where they can be used by any qualified eye surgeon.

VALUE-ADDED SERVICES

LaserVision provides eye surgeons value-added support services that distinguish it from its competitors, enhance the Company's ability to compete for business and enable it to grow with its customers by offering them various service and support arrangements. The following value-added services help LaserVision's eye surgeon customers to expand their practices, thereby increasing the use of LaserVision's equipment and services:

- Technical Support and Equipment Maintenance - As of December 31, 2004, LaserVision employed 37 certified laser engineers and 25 microkeratome technicians. The laser engineers perform most required laser maintenance and help ensure rapid response to most laser repair or maintenance needs.
- Staff Training and Development - Through both field and corporate based practice development support, LaserVision provides its eye surgeon customers with a comprehensive menu of options to enhance patient education, staff knowledge, and patient recruitment. Start-up services include centralized refractive coordinator training programs and access to patient financing program. These centralized training programs and field-based support provide eye surgeon staff an opportunity to learn best practices with respect to patient conversion, patient flow and marketing programs. Extended services, such as corporate programs, database management and networking techniques, enable eye surgeon customers to experience continued growth in their practice.
- Building Relationships - LaserVision works to form relationships between eye surgeons and optometrists. These optometric networks are valuable in referring patients to eye surgeons who use LaserVision's equipment and services. LaserVision helps to form these referral networks by training optometrists, who are then able to provide pre-operative screenings as well as post-surgical follow-up to their patients. LaserVision also provides eye surgeon customers with marketing advice designed to foster these referrals and generate new patients.
- Clinical Advisors - *TLCVision* maintains a Clinical Advisory Group which conducts regular conference calls with LaserVision's eye surgeon customers. Our clinical advisors, who are eye surgeons and optometrists with extensive clinical experience, chair these conference calls. In addition, *TLCVision* conducts clinical advisory meetings at major industry conferences each year. The clinical advisors also make themselves available to consult with eye surgeon customers in addition to regularly scheduled conference calls and meetings.
- Practice Satelliting - LaserVision assists eye surgeons with high-volume practices who desire to serve smaller markets through satellite surgical locations. This program allows eye surgeon customers to leverage their time performing eye surgery.

SALES AND MARKETING

LaserVision's business development personnel develop sales leads, which come from sources such as customer contact through trade shows and professional organizations. After identifying a prospective eye surgeon customer, the regional manager guides the eye surgeon through the contract process. Once an eye surgeon is prepared to initiate surgeries using our services and equipment, LaserVision's operations department and business development personnel assume primary responsibility for the ongoing relationship.

MOBILE AND FIXED ACCESS AGREEMENTS

Under LaserVision's standard refractive mobile access agreements with surgeons, LaserVision provides some or all of the following: laser platform and microkeratome equipment, certain related supplies for the equipment (such as laser gases, per procedure cards and microkeratome blades), laser operator, microkeratome technician, maintenance and certain technology upgrades. In addition, LaserVision may provide marketing assistance, coordination of surgeon training and other support services. This access is provided on agreed upon dates at either the surgeons' offices or a third party's facility. In return, the surgeons pay a per procedure fee for LaserVision's services and generally agree to exclusively use LaserVision's equipment for refractive surgery. LaserVision does not provide medical services to the patients or any administrative services to the access surgeon customer.

Under LaserVision's standard refractive fixed access agreements with surgeons, LaserVision generally provides the following: a fixed-base laser platform and microkeratome equipment, certain related supplies for the equipment (such as laser gases, per procedure cards and microkeratome blades), periodic maintenance and certain technology upgrades. In return, the surgeons pay either a per procedure fee and guarantee a minimum number of procedures per month, or a flat monthly fee plus the cost of per procedure cards and blades. In addition, the surgeons generally agree to use exclusively LaserVision's equipment for refractive surgery. LaserVision does not provide a laser operator, microkeratome technician, medical services or any administrative services to the access surgeon customer.

Under LaserVision's joint venture arrangements, LaserVision directly or indirectly provides either mobile or fixed-base laser access and the following: microkeratome equipment, certain related supplies for the equipment (such as laser gases, per procedure cards and microkeratome blades), laser operator, microkeratome technician, maintenance and certain technology upgrades, the laser facility, management services which include administrative services such as billing and collections, staffing for the refractive practice, marketing assistance and funds and other support services. LaserVision receives an access fee and management services fees in addition to being reimbursed for the direct costs paid by LaserVision for the laser facility operations. In return, the surgeons generally agree to exclusively use LaserVision's equipment for refractive surgery and/or not to compete with LaserVision within a certain area. Neither LaserVision nor the joint ventures provide medical services to the patients.

DESCRIPTION OF MOBILE CATARACT BUSINESS

Through its Midwest Surgical Services, Inc. subsidiary ("MSS"), *TLCVision* provides mobile and fixed site cataract equipment and related services in 40 states. As of December 31, 2004, MSS employed 56 cataract equipment technicians and operated 54 mobile cataract systems. An MSS certified surgical technician transports the mobile equipment from one surgery location to the next and prepares the equipment at each stop so that the operating room is ready for cataract surgery. Technicians are also certified to scrub for cataract cases as requested by the surgeon and facility. A typical service offering will include cataract equipment (a phaco emulsifier, a surgical microscope) the IOL, surgical instruments and supplies. Related services, including YAG capsulotomies and SLT lasers treatments, are also offered.

Cataract patients, the majority of whom are elderly, typically prefer to receive treatment near their homes. MSS focuses on developing relationships between local hospitals, referring optometrists and eye surgeons in small to medium-sized markets where MSS's shared-access approach and mobile systems make it economically feasible for optometrists and surgeons to provide cataract surgical services which are "close to home."

The MSS sales staff focuses on identifying small to medium-sized markets, which usually do not have convenient access to the services of a cataract eye surgeon. After identifying such a market, MSS's sales staff will contact the local hospital and local optometrists to develop interest in "close to home" cataract surgery services. When there is sufficient interest, the sales staff brings the hospital and optometrists in contact with an eye surgeon who is willing to provide services to that local market. By bringing these various parties into contact, MSS seeks to increase demand for its mobile cataract services and increase convenience for cataract patients.

DESCRIPTION OF AMBULATORY SURGICAL CENTER BUSINESS

As a natural extension of its existing eye care businesses, *TLCVision* has organized OR Partners, Inc. as a wholly-owned subsidiary to develop, acquire and manage single specialty ophthalmology ambulatory surgery centers (ASCs) in partnership with ophthalmic surgeons. As of December 31, 2004, *TLCVision* has an ownership position in five ASCs and anticipates that more ASCs will be opened during 2005.

ASCs provide outpatient surgery services in a less institutional, more productive and cost-efficient setting than traditional surgical hospitals. The two primary procedures performed in the ASCs are cataract extraction with IOL implantation and YAG capsulotomies.

However, the ASCs have the capability to accommodate additional ophthalmic surgical procedures as well as additional procedures from compatible surgical specialties.

DESCRIPTION OF OPTOMETRIC FRANCHISING BUSINESS

Vision Source is a majority-owned subsidiary that provides marketing, practice development and purchasing power to independently-owned and operated optometric practices in the United States. As of December 31 2004, Vision Source had 1,182 practices under franchise agreements across the United States, and in exchange for providing services to its franchisees, it received franchise fees equal to a predetermined percentage of gross practice billings. This business supports the development of independent practices and complements the Company's co-management model.

SUPPORT PROGRAMS

CLINICAL ADVISORY GROUP

The Company's Clinical Advisory Group is comprised of refractive surgeons and optometrists selected based upon clinical experience and previous involvement with *TLCVision*. The Clinical Advisory Group acts as both a clinical and business resource to the Company by providing an eye care professional's perspective on market competition, proposed policies and operational strategies. Additionally, the Clinical Advisory Group acts as a resource to the Company's employees and affiliated doctors. The Clinical Advisory Group holds scheduled meetings throughout the year and meets as necessary to consider clinical issues as they arise.

EMERGING TECHNOLOGIES

The Company considers itself a leader in the provision of vision correction technology. The Company's medical directors continually evaluate new vision correction technologies and procedures to seek to ensure that affiliated doctors have access to state-of-the-art technology to provide the highest level of care. *TLCVision's* branded eye care centers in Canada are state-of-the-art facilities that are used to examine and evaluate new technologies for *TLCVision*. The Company's Clinical Advisory Group monitors emerging technologies and procedures being developed by third party equipment and device manufacturers to address whether these technologies may complement or improve our service offerings.

EDUCATION

The Company believes that ophthalmologists, optometrists and other eye care professionals who endorse laser vision correction are a valuable resource in increasing general awareness and acceptance of the procedures among potential candidates and in promoting the Company as a service provider. The Company seeks to be perceived by eye care professionals as the clinical leader in the field of laser vision correction. One way in which it hopes to achieve this objective is by participating in the education and training of eye care doctors in Canada and the United States.

The Company provides educational programs to doctors in all aspects of clinical study, including programs in conjunction with several of the major optometry schools in the United States. In addition, the Company has an education and training relationship with the University of Waterloo, the only English language optometry school in Canada.

WEBSITE

TLCVision has linked its branded eye care centers, network doctors and potential patients through its website, www.tlcvision.com, which provides a directory of affiliated eye care providers and contains questions and answers about laser vision correction. *TLCVision's* website also contains other useful information for shareholders and investors.

TLCVision makes available free of charge on or through its website (<http://www.tlcvision.com>) its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The material is made available through the Company's website as soon as reasonably practicable after the material is electronically filed with or furnished to the Commission. All of *TLCVision's* filings may be read or copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website (<http://www.sec.gov>) that contains reports, proxy and information statements regarding issuers that file electronically.

EQUIPMENT AND CAPITAL FINANCING

The Company primarily utilizes the VISX, Alcon and Bausch & Lomb excimer lasers for refractive surgery. See "Industry Background - Laser Vision Correction."

Although there can be no assurance, the Company believes that based on the number of existing manufacturers, the current inventory levels of those manufacturers and the number of suitable, previously owned and, in the case of U.S. centers, FDA-approved lasers available for sale in the market, the supply of excimer lasers is more than adequate for the Company's future operations.

A new excimer laser costs up to \$300,000. However, the industry trend in the sale of excimer lasers is moving away from a flat purchase price to the alternative of charging the purchaser a per-procedure fee.

As available technology improves and the FDA approves additional procedures, the Company expects to upgrade the capabilities of its lasers. See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

COMPETITION

CONSUMER MARKET FOR VISION CORRECTION

Within the consumer market, excimer laser procedures performed at the Company's centers compete with other surgical and non-surgical treatments for refractive disorders, including eyeglasses, contact lenses, other types of refractive surgery and technologies currently under development such as corneal rings, intraocular lenses and surgery with different types of lasers. Although the Company believes that eyeglass and contact lens use will continue to be the most popular form of vision correction in the foreseeable future, as market acceptance for laser vision correction continues to increase, competition within this market will grow. There can be no assurance that the Company's management, operations and marketing plans are or will be successful in meeting this variety of competition. Further, there can be no assurance that the Company's competitors' access to capital, financing or other resources or their market presence will not give these competitors an advantage against the Company. In addition, other surgical and non-surgical techniques to treat vision disorders are currently in use and under development and may prove to be more attractive to consumers than laser vision correction.

MARKET FOR LASER VISION CORRECTION

Within the consumer market for laser vision correction, the Company continues to face increasing competition from other service providers. As market acceptance for laser vision correction continues to increase, competition within this market may grow. Laser vision correction providers are divided into three major segments: corporate-owned centers; independent surgeon-owned centers; and institution-owned centers. According to Market Scope, as of October 31, 2004, independent surgeon-owned centers accounted for the largest percentage of total procedure volume in the industry with a 63% market share. Corporate-owned centers accounted for 26% of total procedures performed. The remaining 11% of laser vision correction procedures were performed at institution-owned centers, such as hospitals or universities.

Although many competitors continue to charge less for laser vision correction than the Company's branded eye care center and its affiliated doctors, the Company believes that the important factors affecting competition in the laser vision correction market are quality of service, surgeon skill and reputation and price and that its competitiveness is enhanced by a strong network of affiliated doctors. Suppliers of conventional vision correction (eyeglasses and contact lenses), such as optometric chains, also compete with the Company either by marketing alternatives to laser vision correction or by purchasing excimer lasers and offering refractive surgery to their customers. These service providers may have greater marketing and financial resources and experience than the Company and may be able to offer laser vision correction at lower rates. Competition has also increased in part due to the greater availability and lower costs of excimer lasers.

During 2004, the laser vision correction industry experienced a strong rebound after experiencing several years of lower demand. Additionally, average LASIK pricing continued to increase from the dramatically reduced pricing experienced from late 2000 until mid-2003, as a number of providers dramatically reduced price in an effort to gain market share. During this period, *TLCVision* maintained its premium-pricing model emphasizing superior quality of care and outcomes. In April 2001, *LasikVision Corporation* and *Lasik Vision Canada Inc.*, subsidiaries of *ICON Laser Eye Centers, Inc.*, made assignments in bankruptcy. In June 2001, *ICON Laser Eye Centers, Inc.* was placed in receivership and *Vision America* also declared bankruptcy during fiscal 2002. The Company believes that these filings, together with related media reports, had a negative impact on procedure volumes by generating a great deal of short-term concern and confusion among prospective patients. A series of negative news stories focusing on patients with

unfavorable outcomes from procedures performed at competing centers further adversely affected procedure volumes. In addition, being an elective procedure, laser eye surgery volumes were also depressed by weak economic conditions in North America during 2001 and 2002.

TLC*Vision* competes in fragmented geographic markets. The Company's principal corporate competitors include LCA-Vision Inc. and Lasik Vision Institute, Inc. See "Item 1 - Business - Overview."

GOVERNMENT REGULATION

EXCIMER LASER REGULATION

UNITED STATES

Medical devices, such as the excimer lasers used in the Company's U.S. centers, are subject to stringent regulation by the FDA and cannot be marketed for commercial use in the United States until the FDA grants pre-market approval ("PMA") for the device. To obtain a PMA for a medical device, excimer laser manufacturers must file a PMA application that includes clinical data and the results of pre-clinical and other testing sufficient to show that there is a reasonable assurance of safety and effectiveness of their excimer lasers. Human clinical trials must be conducted pursuant to Investigational Device Exemptions issued by the FDA in order to generate data necessary to support a PMA. See "Item 1 - Business - Industry Background - Laser Vision Correction."

The FDA is not authorized to regulate the practice of medicine, and ophthalmologists, including those affiliated with TLC*Vision* eye care centers, may perform the LASIK procedure, using lasers with a PMA for PRK only (off-label use) in an exercise of professional judgment in connection with the practice of medicine.

The use of an excimer laser to treat both eyes on the same day (bilateral treatment) has not been approved by the FDA. The FDA has stated that it considers the use of the excimer laser for bilateral treatment to be a practice of medicine decision, which the FDA is not authorized to regulate. Ophthalmologists, including those affiliated with the Company's branded eye care centers, widely perform bilateral treatment in an exercise of professional judgment in connection with the practice of medicine. There can be no assurance that the FDA will not seek to challenge this practice in the future.

Any excimer laser manufacturer which obtains PMA approval for use of its excimer lasers will continue to be subject to regulation by the FDA. Although the FDA does not specifically regulate surgeons' use of excimer lasers, the FDA actively enforces regulations prohibiting marketing of products for non-approved uses and conducts periodic inspections of manufacturers to determine compliance with Quality System Regulations.

Failure to comply with applicable FDA requirements could subject the Company, its affiliated doctors or laser manufacturers to enforcement action, including product seizure, recalls, withdrawal of approvals and civil and criminal penalties, any one or more of which could have a material adverse effect on the Company's business, financial condition and results of operations. Further, failure to comply with regulatory requirements or any adverse regulatory action, including a reversal of the FDA's current position that the "off-label" use of excimer lasers by doctors outside the FDA-approved guidelines is a practice of medicine decision, which the FDA is not authorized to regulate, could result in a limitation on or prohibition of the Company's use of excimer lasers, which in turn could have a material adverse effect on the Company's business, financial condition and results of operations.

The marketing and promotion of laser vision correction in the United States are subject to regulation by the FDA and the Federal Trade Commission ("FTC"). The FDA and FTC have released a joint communiqué on the requirements for marketing laser vision correction in compliance with the laws administered by both agencies. The FTC staff also issued more detailed staff guidance on the marketing and promotion of laser vision correction and has been monitoring marketing activities in this area through a non-public inquiry to identify areas that may require further FTC attention.

CANADA

The use of excimer lasers in Canada to perform refractive surgery is not subject to regulatory approval, and excimer lasers have been used to treat myopia since 1990 and hyperopia since 1996. The Health Protection Branch of Health Canada ("HPB") regulates the sale of devices, including excimer lasers used to perform procedures at the Company's Canadian eye care centers. Pursuant to the regulations prescribed under the Canadian Food and Drugs Act, the HPB may permit manufacturers or importers to sell a certain number of devices to perform procedures provided the devices are used in compliance with specified requirements for investigational testing. Permission to sell the device may be suspended or cancelled where the HPB determines that its use endangers the health of patients or users or where the regulations have been violated. Devices may also be sold for use on a non-investigational basis where

evidence available in Canada to the manufacturer or importer substantiates the benefits and performance characteristics claimed for the device. The Company believes that the sale of the excimer lasers to its eye care centers, as well as their use at the centers, complies with HPB requirements. There can be no assurance that Canadian regulatory authorities will not impose restrictions, which could have a material adverse effect on the Company's business, financial condition and results of operations.

REGULATION OF OPTOMETRISTS AND OPHTHALMOLOGISTS

UNITED STATES

The health care industry in the United States is highly regulated. The Company and its operations are subject to extensive federal, state and local laws, rules and regulations, including those prohibiting corporations from practicing medicine and optometry, prohibiting unlawful rebates and division of fees, anti-kickback laws, fee-splitting laws, self-referral laws, laws limiting the manner in which prospective patients may be solicited and professional licensing rules. Approximately 42 states in which the Company currently does business limit or prohibit corporations from practicing medicine and employing or engaging physicians to practice medicine.

The Company has reviewed these laws and regulations with its health care counsel, and although there can be no assurance, the Company believes that its operations currently comply with applicable laws in all material respects. Also, the Company expects that doctors affiliated with *TLCVision* will comply with such laws in all material respects, although it cannot ensure such compliance by doctors.

Federal Law. A federal law (known as the "anti-kickback statute") prohibits the offer, solicitation, payment or receipt of any remuneration which is intended to induce or is in return for the referral of patients for or the ordering of items or services reimbursable by Medicare or any other federally financed health care program. This statute also prohibits remuneration intended to induce the purchasing of or arranging for or recommending the purchase or order of any item, good, facility or service for which payment may be made under federal health care programs. This statute has been applied to otherwise legitimate investment interests if one purpose of the offer to invest is to induce referrals from the investor. Safe harbor regulations provide absolute protection from prosecution for certain categories of relationships. In addition, a recent law broadens the government's anti-fraud and abuse enforcement responsibilities to include all health care delivery systems regardless of payor.

Subject to certain exceptions, federal law also prohibits referrals for the provision of Medicare or Medicaid-covered "designated health services" between a physician and another entity with which the physician (or an immediate family member) has a financial relationship (which includes ownership and compensation arrangements). This law, known as the "Stark Law," does not apply outside of the Medicare and Medicaid programs or to items or services that are not one of the 11 designated health services.

Laser vision correction is not reimbursable by Medicare, Medicaid or other federal programs. As a result, neither the anti-kickback statute nor the Stark Law applies to the Company's laser vision correction business, but the Company may be subject to similar state laws.

Doctors affiliated with the Company's ambulatory surgery company, OR Partners, Inc., the Company's mobile cataract services business, MSS, or the Company's secondary care centers provide services that are reimbursable under Medicare and Medicaid. Further, ophthalmologists and optometrists co-manage Medicare and Medicaid patients who receive services at the Company's secondary care centers. The co-management model is based, in part, upon the referral by an optometrist for surgical services performed by an ophthalmologist and the provision of pre- and post-operative services by the referring optometrist. The Office of the Inspector General for the Department of Health and Human Services, the government agency responsible for enforcing the anti-kickback statute, has stated publicly that to the extent there is an agreement between optometrists and ophthalmologists to refer back to each other, such an agreement could constitute a violation of the anti-kickback statute. The Company believes, however, that its co-management program does not violate the anti-kickback statute, as patients are given the choice whether to return to the referring optometrist or to stay with the ophthalmologist for post-operative care. Nevertheless, there can be no guarantee that the Office of the Inspector General will agree with the Company's analysis of the law. If the Company's co-management program were challenged as violating the anti-kickback statute and the Company were not successful in defending against such a challenge, then the result may be civil or criminal fines and penalties, including exclusion of the Company, the ophthalmologists and the optometrists from the Medicare and Medicaid programs or the requirement that the Company revise the structure of its co-management program or curtail its activities, any of which could have a material adverse effect upon the Company's business, financial condition and results of operations.

The provision of services covered by the Medicare and Medicaid programs in the Company's ambulatory surgery business, mobile cataract business and secondary care centers also triggers potential application of the Stark Law. The co-management model could establish a financial relationship, as defined in the Stark Law, between the ophthalmologist and the optometrist. Similarly, to the

extent that the Company provides any designated health services, as defined in the statute, the Stark Law could be triggered as a result of any of the several financial relationships between the Company and ophthalmologists. Based on its current interpretation of the Stark Law as set forth in the final rule published in 2000, the Company believes that the referrals from ophthalmologists and optometrists either will be for services which are not designated health care services as defined in the statute or will be covered by an exception to the Stark Law. There can be no assurance, however, that the government will agree with the Company's position or that there will not be changes in the government's interpretation of the Stark Law. In such case, the Company may be subject to civil penalties as well as administrative exclusion and would likely be required to revise the structure of its legal arrangements or curtail its activities, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Administrative Simplification provisions of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") were enacted to (a) improve the efficiency and effectiveness of the healthcare system by standardizing the exchange of electronic information for certain administrative and financial transactions and (b) protect the confidentiality and security of health information. HIPAA directed the U.S. Department of Health and Human Services to promulgate a set of interlocking regulations to implement the goals of HIPAA. The regulations apply to "covered entities" which include health plans, healthcare clearinghouses and healthcare providers who transmit patient health information ("PHI") in electronic form in connection with certain administrative and billing transactions. These regulations can be divided into the following:

- Privacy Regulations designed to protect and enhance the rights of patients by providing patient access to their PHI and controlling the use of their PHI;
- Security Regulations designed to protect electronic health information by mandating certain physical, technical and administrative safeguards;
- Electronic Transactions and Code Sets Regulations designed to standardize electronic data interchange in the health care industry;
- Standard Unique Employer Identifier Regulations designed to standardize employer identification numbers used in certain electronic transactions; and
- Standard Unique Health Identifier for Health Care Providers Regulations designed to standardize the identification of health care providers used in electronic transactions.

While the regulations are all in final form, the compliance date for each set of regulations varies. Compliance with the Privacy Regulations was required by April 14, 2003 (except for "small" health plans) and compliance with the Electronic Transaction and Code Sets Regulations was required by October 16, 2003. Compliance with the Standard Unique Employer Identifier Regulations was required by July 30, 2004; April 21, 2005 for the Security Regulations; and May 23, 2005 for the Standard Unique Health Identifier for Health Care Providers Regulations.

The Company has instituted new policies and procedures designed to comply with the Privacy Regulations at various centers throughout the Company. Because the Company is self-insured and meets the definition of "small" health plan, the Company's health plan had until April 14, 2004 to comply with the Privacy Regulations. The Company's plan sponsor has taken steps to institute new policies and procedures to comply with the Privacy Regulations. The Company is implementing employee-training programs explaining how the regulations apply to their job role. The Company intends to implement programs to ensure compliance with the other HIPAA regulations by the applicable compliance date.

State Law. In addition to the requirements described above, the regulatory requirements that the Company must satisfy to conduct its business will vary from state to state, and accordingly, the manner of operation by the Company and the degree of control over the delivery of refractive surgery by the Company may differ among the states.

A number of states have enacted laws, which prohibit what is known as the corporate practice of medicine. These laws are designed to prevent interference in the medical decision-making process by anyone who is not a licensed physician. Many states have similar restrictions in connection with the practice of optometry. Application of the corporate practice of medicine prohibition varies from state to state. Therefore, while some states may allow a business corporation to exercise significant management responsibilities over the day-to-day operation of a medical or optometric practice, other states may restrict or prohibit such activities. The Company believes that it has structured its relationship with eye care doctors in connection with the operation of eye care centers as well as in connection with its secondary care centers so that they conform to applicable corporate practice of medicine restrictions in all material respects. Nevertheless, there can be no assurance that, if challenged, those relationships may not be found to violate a particular state

corporate practice of medicine prohibition. Such a finding may require the Company to revise the structure of its legal arrangements or curtail its activities, and this may have a material adverse effect on the Company's business, financial condition, and results of operations.

Many states prohibit a physician from sharing or "splitting" fees with persons or entities not authorized to practice medicine. The Company's co-management model for refractive procedures presumes that a patient will make a single global payment to the laser center, which is a management entity acting on behalf of the ophthalmologist and optometrist to collect fees on their behalf. In turn, the ophthalmologist and optometrist pay facility and management fees to the laser center out of their patient fees collected. While the Company believes that these arrangements do not violate any of the prohibitions in any material respects, there can be no assurance that one or more states will not interpret this structure as violating the state fee-splitting prohibition, thereby requiring the Company to change its procedures in connection with billing and collecting for services. Violation of state fee-splitting prohibitions may subject the ophthalmologists and optometrists to sanctions, and may result in the Company incurring legal fees, as well as being subjected to fines or other costs, and this could have a material adverse effect on the Company's business, financial condition and results of operations.

Just as in the case of the federal anti-kickback statute, while the Company believes that it is conforming to applicable state anti-kickback statutes in all material respects, there can be no assurance that each state will agree with the Company's position and would not challenge the Company. If the Company were not successful in defending against such a challenge, the result may be civil or criminal fines or penalties for the Company as well as the ophthalmologists and optometrists. Such a result would require the Company to revise the structure of its legal arrangements, and this could have a material adverse effect on the Company's business, financial condition and results of operations.

Similarly, just as in the case of the federal Stark Law, while the Company believes that it is operating in compliance with applicable state anti-self-referral laws in all material respects, there can be no assurance that each state will agree with the Company's position or that there will not be a change in the state's interpretation or enforcement of its own law. In such case, the Company may be subject to fines and penalties as well as other administrative sanctions and would likely be required to revise the structure of its legal arrangements. This could have a material adverse effect on the Company's business, financial condition and results of operations.

CANADA

Conflict of interest regulations in certain Canadian provinces prohibit optometrists, ophthalmologists or corporations owned or controlled by them from receiving benefits from suppliers of medical goods or services to whom the optometrist or ophthalmologist refers his or her patients. In certain circumstances, these regulations deem it a conflict of interest for an ophthalmologist to order a diagnostic or therapeutic service to be performed by a facility in which the ophthalmologist has any proprietary interest. This does not include a proprietary interest in a publicly traded company. Certain of the Company's eye care centers in Canada are owned and managed by a subsidiary in which affiliated doctors own a minority interest. The Company expects that ophthalmologists and optometrists affiliated with *TLCVision* will comply with the applicable regulations, although it cannot ensure such compliance by doctors.

The laws of certain Canadian provinces prohibit health care professionals from splitting fees with non-health care professionals and prohibit non-licensed entities (such as the Company) from practicing medicine or optometry and, in certain circumstances, from employing physicians or optometrists directly. The Company believes that its operations comply with such laws in all material respects, and expects that doctors affiliated with *TLCVision* centers will comply with such laws, although it cannot ensure such compliance by doctors.

Optometrists and ophthalmologists are subject to varying degrees and types of provincial regulation governing professional misconduct, including restrictions relating to advertising, and in the case of optometrists, a prohibition against exceeding the lawful scope of practice. In Canada, laser vision correction is not within the permitted scope of practice of optometrists. Accordingly, *TLCVision* does not allow optometrists to perform the procedure at *TLCVision* centers in Canada.

FACILITY LICENSURE AND CERTIFICATE OF NEED

The Company believes that it has all licenses necessary to operate its business. The Company may be required to obtain licenses from the state Departments of Health, or a division thereof, in the various states in which it opens eye care centers. There can be no assurance that the Company will be able to obtain facility licenses in all states which may require facility licensure.

Some states require the permission of the Department of Health or a division thereof, such as a Health Planning Commission, in the form of a Certificate of Need ("CON") prior to the construction or modification of an ambulatory care facility, such as a laser

center, or the purchase of certain medical equipment in excess of an amount set by the state. There can be no assurance that the Company will be able to acquire a CON in all states where a CON is required.

The Company is not aware of any Canadian health regulations which impose facility-licensing requirements on the operation of eye care centers.

NASDAQ QUORUM EXEMPTION

The Company has received an exemption from the Nasdaq Stock Market with respect to compliance with Rule 4350(f) of the Nasdaq corporate governance rules which require that a quorum for any meeting of shareholders shall be not less than 33 1/3% of the outstanding shares of voting common stock. As permitted under the laws of New Brunswick, Canada, the Company's Bylaws provide that a quorum for a meeting of shareholders consists of at least two persons present in person and each entitled to vote at the meeting and holding at least 20% of the outstanding *TLCVision* common shares.

RISK OF NON-COMPLIANCE

Many of these laws and regulations governing the health care industry are ambiguous in nature and have not been definitively interpreted by courts and regulatory authorities. Moreover, state and local laws 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 by courts and regulatory authorities 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. Numerous legislative proposals have been introduced in Congress and in various state legislatures over the past several years that would, if enacted, effect major reforms of the U.S. health care system. The Company cannot predict whether any of these proposals will be adopted and, if adopted, what impact such legislation would have on the Company's business. The Company has reviewed existing laws and regulations with its health care counsel, and although there can be no assurance, the Company believes that its operations currently comply with applicable laws in all material respects. Also, *TLCVision* expects that affiliated doctors will comply with such laws in all material respects, although it cannot assure such compliance by doctors. The Company could be required to revise the structure of its legal arrangements or the structure of its fees, incur substantial legal fees, fines or other costs, or curtail certain of its business activities, reducing the potential profit to the Company of some of its legal arrangements, any of which may have a material adverse effect on the Company's business, financial condition and results of operations.

INTELLECTUAL PROPERTY

The names "TLC The Laser Center," "*TLCVision*," and slogans "See the Best," "Feel the Difference. See the Results" are registered U.S. service marks of *TLCVision* and registered trademarks in Canada. *TLCVision* has registered "TLC Laser Eye Centers" with the *TLCVision* eye design as a trademark in the United States and Canada. "Laser Vision," "Laser Vision Centers and Design," and "Laser Vision Centers" are registered trademarks in the United States utilized by LaserVision. LaserVision has secured a patent for certain aspects of its Roll-On/Roll-Off system. In addition, *TLCVision* owns a patent in the United States on the treatment of a potential side effect of laser vision correction generally known as "central islands." The patent expires in May 2014. The Company's service marks, patents and other intellectual property may offer the Company a competitive advantage in the marketplace and could be important to the success of the Company. One or all of the registrations of the service marks may be challenged, invalidated or circumvented in the future.

The medical device industry, including the ophthalmic laser sector, has been characterized by substantial litigation in the United States and Canada regarding patents and proprietary rights. There are a number of patents concerning methods and apparatus for performing corneal procedures with excimer lasers. Although the Company currently leases or purchases excimer lasers and other technology from the manufacturers, in the event that the use of an excimer laser or other procedure performed at any of the Company's refractive or secondary care centers is deemed to infringe a patent or other proprietary right, the Company may be prohibited from using the equipment or performing the procedure that is the subject of the patent dispute or may be required to obtain a royalty-bearing license, which may not be available on favorable terms, if at all. The costs associated with any such licensing arrangements may be substantial and could include ongoing royalty payments. In the event that a license is not available, the Company may be required to seek the use of products, which do not infringe the patent.

EMPLOYEES

Including part-time employees, the Company had 1,138 employees as of December 31, 2004. The Company's progress to date has been highly dependent upon the skills of its key technical and management personnel both in its corporate offices and in its eye care centers, some of whom would be difficult to replace. There can be no assurance that the Company can retain such personnel or that it

can attract or retain other highly qualified personnel in the future. No employee of the Company is represented by a collective bargaining agreement, nor has the Company experienced a work stoppage. The Company considers its relations with its employees to be good. See "Item 1 - Business - Risk Factors - Dependence on Key Personnel."

RISK FACTORS

TLCVISION HAS REPORTED ACCUMULATED DEFICITS; FUTURE PROFITABILITY UNCERTAIN

TLCVision reported net losses of \$9.4 million, \$43.3 million and \$161.8 million for the year ended December 31, 2003, the transitional period ended December 31, 2002 and fiscal 2002, respectively. As of December 31, 2004, TLCVision reported an accumulated deficit of \$251.0 million. Even though TLCVision reported net income of \$43.7 million for the year ended December 31, 2004, that amount included a gain of \$25.8 million attributable to the initial public offering of its OccuLogix, Inc. subsidiary, and the Company may not be able to sustain its profitability. TLCVision's profitability will depend on a number of factors, including:

- demand for the Company's services;
- the Company's ability to control costs;
- the Company's ability to execute its strategy and effectively integrate acquired businesses and assets;
- the Company's ability to obtain adequate insurance against malpractice claims and reduce the number of claims;
- economic conditions in the Company's markets, including the availability of discretionary income;
- concerns about the safety and effectiveness of laser vision correction;
- competitive factors;
- regulatory developments;
- the Company's ability to retain and attract qualified personnel; and
- doctors' ability to obtain adequate insurance against malpractice claims at reasonable rates.

In addition, OccuLogix, Inc. expects to report significant net losses at least through 2006 and possibly beyond. The Company will continue to report OccuLogix, Inc. on a consolidated basis for the foreseeable future.

See "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

CHANGES IN GENERAL ECONOMIC CONDITIONS MAY CAUSE FLUCTUATIONS IN TLCVISION'S REVENUES AND PROFITABILITY.

The cost of laser vision correction procedures is typically not reimbursed by health care insurance companies or other third-party payors. Accordingly, the operating results of TLCVision may vary based upon the impact of changes in economic conditions on the disposable income of consumers interested in laser vision correction. A significant decrease in consumer disposable income in a weakening economy may result in decreased procedure levels and revenues for TLCVision. For example, the downturn in the North American economy contributed to a 17% decline in the number of paid procedures at TLCVision's branded centers and a 22% decline in total revenues for the seven months ended December 31, 2002 compared to the corresponding period in 2001. In addition, weakening economic conditions may result in an increase in the number of TLCVision's customers, who experience financial distress or declare bankruptcy, which may negatively impact TLCVision's accounts receivable collection experience.

THE MARKET FOR LASER VISION CORRECTION IS INTENSELY COMPETITIVE AND COMPETITION MAY INCREASE.

Some of the Company's competitors or companies that may choose to enter the industry in the future, including laser manufacturers themselves, may have substantially greater financial, technical, managerial, marketing and/or other resources and experience than the Company and may compete more effectively than TLCVision. TLCVision competes with hospitals, individual ophthalmologists, other corporate laser centers and manufacturers of excimer laser equipment in offering laser vision correction services and access to excimer lasers. TLCVision's principal corporate competitors include LCA-Vision Inc. and Lasik Vision Institute, Inc.

Competition in the market for laser vision correction could increase as excimer laser surgery becomes more commonplace and the number of ophthalmologists performing the procedure increases. In addition, competition would increase if state laws were amended to permit optometrists, in addition to ophthalmologists, to perform laser vision correction. TLCVision will compete on the basis of quality of service, surgeon skill and reputation and price. If more providers offer laser vision correction in a given geographic market, the price charged for such procedures may decrease. In recent years, competitors have offered laser vision correction at prices

considerably lower than *TLCVision's* prices. The laser vision correction industry has been significantly affected by reductions in the price for laser vision correction, including the failure of many businesses that provided laser vision correction. Market conditions may compel *TLCVision* to lower prices to remain competitive and any reduction in its prices may not be offset by an increase in its procedure volume or decreases in its costs. A decrease in either the fees or procedures performed at *TLCVision's* eye care centers or in the number of procedures performed at its centers could cause *TLCVision's* revenues to decline and its business and financial condition to weaken.

Laser vision correction competes with other surgical and non-surgical means of correcting refractive disorders, including eyeglasses, contact lenses, other types of refractive surgery and other technologies currently under development, such as intraocular lenses and surgery with different types of lasers. *TLCVision's* management, operations and marketing plans may not be successful in meeting this competition. Certain competitive optometry chains and other suppliers of eyeglasses and contact lenses may have substantially greater financial, technical, managerial, marketing and other resources and experience than the Company and may promote alternatives to laser vision correction or purchase laser systems and offer laser vision correction to their customers.

If the price of excimer laser systems decreases, additional competition could develop. The price for excimer laser systems could decrease for a number of reasons, including technological innovation and increased competition among laser manufacturers. Further reductions in the price of excimer lasers could reduce demand for *TLCVision's* laser access services by making it economically more attractive for eye surgeons to buy excimer lasers rather than utilize *TLCVision's* services.

Most affiliated surgeons performing laser vision correction at *TLCVision's* eye care centers and significant employees of *TLCVision* have agreed to restrictions on competing with *TLCVision*, or soliciting patients or employees associated with their facilities; however, these non-competition agreements may not be enforceable.

THE MARKET ACCEPTANCE OF LASER VISION CORRECTION IS UNCERTAIN.

TLCVision believes that the profitability and growth of *TLCVision* will depend upon broad acceptance of laser vision correction in the United States and, to a lesser extent, Canada. *TLCVision* may have difficulty generating revenue and growing its business if laser vision correction does not become more widely accepted by the general population as an alternative to existing methods of treating refractive vision disorders. Laser vision correction may not become more widely accepted due to a number of factors, including:

- its cost, particularly since laser vision correction typically is not covered by government or private insurers;
- general resistance to surgery;
- effective and less expensive alternative methods of correcting refractive vision disorders are widely available;
- the lack of long-term follow-up data;
- the possibility of unknown side effects; and
- reported adverse events or other unfavorable publicity involving patient outcomes from laser vision correction.

CONCERNS ABOUT POTENTIAL SIDE EFFECTS AND LONG-TERM RESULTS OF LASER VISION CORRECTION MAY NEGATIVELY IMPACT MARKET ACCEPTANCE OF LASER VISION CORRECTION AND PREVENT *TLCVISION* FROM GROWING ITS BUSINESS.

Concerns have been raised with respect to the predictability and stability of results and potential complications or side effects of laser vision correction. Any complications or side effects of laser vision correction may call into question the safety and effectiveness of laser vision correction, which in turn may damage the likelihood of market acceptance of laser vision correction. Complications or side effects of laser vision correction could lead to product liability, malpractice or other claims against *TLCVision*. Also, complications or side effects could jeopardize the approval by the U.S. Food and Drug Administration of the excimer laser for sale for laser vision correction. Although results of a study showed that the majority of patients experienced no serious side effects seven years after laser vision correction using the Photorefractive Keratectomy procedure, known as PRK, complications may be identified in further long-term follow-up studies of PRK. There are no long-term studies on the side effects of Laser In-Situ Keratomileusis, known as LASIK, the procedure more often performed in recent years.

There is no independent industry source for data on side effects or complications from laser vision correction. In addition, *TLCVision* does not track side effects. Some of the possible side effects of laser vision correction are:

- foreign body sensation,
- pain or discomfort,
- sensitivity to bright lights,

- blurred vision,
- dryness or tearing,
- fluctuation in vision,
- night glare,
- poor or reduced visual quality,
- overcorrection or undercorrection,
- regression, and
- corneal flap or corneal healing complications.

TLC*Vision* believes that the percentage of patients who experience serious side effects as a result of laser vision correction at its centers is likely less than 1%. However, there is no study to support this belief.

Laser vision correction may also involve the removal of "Bowman's membrane," an intermediate layer between the outer corneal layer and the middle corneal layer of the eye. Although several studies have demonstrated no significant adverse reactions to excimer laser removal of Bowman's membrane, the long-term effect of the removal of Bowman's membrane on patients is unclear.

TLCVISION MAY BE UNABLE TO ENTER INTO OR MAINTAIN AGREEMENTS WITH DOCTORS OR OTHER HEALTH CARE PROVIDERS ON SATISFACTORY TERMS.

TLC*Vision* will have difficulty generating revenue if it is unable to enter into or maintain agreements with doctors or other health care providers on satisfactory terms. Most states prohibit TLC*Vision* from practicing medicine, employing doctors to practice medicine on its behalf or employing optometrists to render optometric services on its behalf. In most states TLC*Vision* may only own and manage centers and enter into affiliations with doctors and other health care providers. Also, affiliated doctors have provided a significant source of patients for TLC*Vision* and are expected to provide a significant source of patients for TLC*Vision*. Accordingly, the success of TLC*Vision*'s business depends upon its ability to enter into agreements on acceptable terms with a sufficient number of health care providers, including institutions and eye care doctors to render or arrange surgical and other professional services at facilities it owns or manages.

QUARTERLY FLUCTUATIONS IN OPERATING RESULTS MAKE FINANCIAL FORECASTING DIFFICULT.

TLC*Vision* may experience future quarterly losses, which may exceed prior quarterly losses. TLC*Vision*'s expense levels will be based, in part, on its expectations as to future revenues. If actual revenue levels were below expectations, TLC*Vision*'s operating results would deteriorate. Historically, the quarterly results of operations of TLC*Vision* have varied, and future results may continue to fluctuate significantly from quarter to quarter. Accordingly, quarter-to-quarter comparisons of TLC*Vision*'s operating results may not be meaningful and should not be relied upon as indications of its future performance or annual operating results. Quarterly results will depend on numerous factors, including economic conditions in the Company's geographic markets, market acceptance of its services, seasonal factors and other factors described in this Form 10-K.

THE MARKET PRICE OF TLCVISION'S COMMON SHARES MAY BE VOLATILE.

Historically, the market price of TLC*Vision*'s common shares has been volatile. For example, the market price of TLC*Vision*'s common shares decreased from a high of \$53.50 to a low of \$0.79 between July 1999 and March 2003, then increased to \$13.13 by April 2004. TLC*Vision*'s common shares will likely be volatile in the future due to industry developments and business-specific factors such as:

- the Company's ability to effectively penetrate the laser vision correction market;
- the impact of OccuLogix, Inc. on results of operations;
- perception of the potential for rheopheresis for dry AMD
- the Company's ability to execute its business strategy;
- new technological innovations and products;
- changes in government regulations;
- adverse regulatory action;
- public concerns about the safety and effectiveness of laser vision correction;
- loss of key management;
- announcements of non-routine events such as acquisitions or litigation;
- variations in its financial results;

- fluctuations in competitors' stock prices;
- the issuance of new or changed stock market analyst reports and recommendations concerning its common shares or competitors' stock;
- changes in earnings estimates by securities analysts;
- the Company's ability to meet analysts' projections;
- changes in the market for medical services;
- general economic, political and market conditions; or

In addition, in recent years the prices and trading volumes of publicly traded shares, particularly those of companies in health care related markets, have been volatile. This volatility has substantially affected the market prices of many companies' securities for reasons frequently unrelated or disproportionate to their operating performance. Following the terrorist attacks in the United States in September 2001, stock markets experienced volatility and stock prices declined, in some cases substantially. Continued volatility may reduce the market price of the common shares of *TLCVision*.

TLCVISION MAY BE UNABLE TO EXECUTE ITS BUSINESS STRATEGY.

TLCVision's business strategy is to be a diversified eye care services company, leveraging its relationships with over 13,000 ophthalmologists and optometrists throughout North America to 1) grow the core refractive business while 2) continuing to expand the non-refractive business segment.

If *TLCVision* does not successfully execute this strategy or if the strategy is not effective, *TLCVision* may be unable to maintain or grow its revenues and profitability.

TLCVISION MAY MAKE INVESTMENTS THAT MAY NOT BE PROFITABLE.

TLCVision has made investments that were intended to support its strategic business purposes, such as *TLCVision*'s investment in LaserSight Inc. These investments were generally made in companies in the laser vision correction business or that owned emerging technologies that *TLCVision* believed would support the Company's refractive business. *TLCVision* recognized a charge of approximately \$26.1 million, \$2.1 million and \$0.4 million in the fiscal year ended May 31, 2002, the seven-month period ended December 31, 2002 and the year ended December 31, 2003, respectively, primarily as a result of the decline in the value of its investments, including the investment in LaserSight. The remaining value of the investment in LaserSight was written off in 2003 when LaserSight declared bankruptcy. *TLCVision* may make similar investments in the future, some of which may be material or may become material over time. If *TLCVision* is unable to successfully manage its current and future investments, including ASC investments, or if these investments are not profitable or do not generate the expected returns, then future operating results may be adversely impacted.

THE GROWTH STRATEGY OF TLCVISION DEPENDS ON ITS ABILITY TO MAKE ACQUISITIONS OR ENTER INTO AFFILIATION ARRANGEMENTS.

The success of *TLCVision*'s growth strategy will be dependent on increasing the number of procedures at its eye care centers and/or increasing the number of eye care centers through internal development or acquisitions and entering into affiliation arrangements with local eye care professionals in markets not large enough to justify a corporate center.

The addition of new centers will present challenges to management, including the integration of new operations, technologies and personnel. The addition of new centers also presents special risks, including:

- unanticipated liabilities and contingencies;
- diversion of management attention; and
- possible adverse effects on operating results resulting from:
 - possible future goodwill impairment;
 - increased interest costs;
 - the issuance of additional securities; and
 - increased costs resulting from difficulties related to the integration of the acquired businesses.

TLCVision's ability to achieve growth through acquisitions will depend on a number of factors, including:

- the availability of attractive acquisition opportunities;

- the availability of capital to complete acquisitions;
- the availability of working capital to fund the operations of acquired businesses; and
- the effect of existing and emerging competition on operations.

TLC*Vision* may not be able to successfully identify suitable acquisition candidates, complete acquisitions on acceptable terms, if at all, or successfully integrate acquired businesses into its operations. TLC*Vision*'s past and possible future acquisitions may not achieve adequate levels of revenue, profitability or productivity or may not otherwise perform as expected.

TLCVISION MAY BE UNABLE TO SUCCESSFULLY IMPLEMENT AND INTEGRATE NEW OPERATIONS AND FACILITIES.

The success of TLC*Vision* depends on its ability to manage its existing operations and facilities and to expand its businesses consistent with the Company's business strategy. In the past, TLC*Vision* has grown rapidly in the United States. TLC*Vision*'s future growth and expansion will increase its management's responsibilities and demands on operating information technologies and financial systems and resources. TLC*Vision*'s business and financial results are dependent upon a number of factors, including its ability to:

- implement upgraded operations, information technologies and financial systems, procedures and controls;
- hire and train new staff and managerial personnel;
- adapt or amend TLC*Vision*'s business structure to comply with present or future legal requirements affecting its arrangements with doctors, including state prohibitions on fee-splitting, corporate practice of optometry and medicine and referrals to facilities in which doctors have a financial interest; and
- obtain regulatory approvals, where necessary, and comply with licensing requirements applicable to doctors and facilities operated, and services offered, by doctors;

TLC*Vision*'s failure or inability to successfully implement these and other factors may adversely affect the quality and profitability of its business operations.

TLCVISION DEPENDS ON KEY PERSONNEL WHOSE LOSS COULD ADVERSELY AFFECT ITS BUSINESS.

TLC*Vision*'s success and growth depends in part on the active participation of key medical and management personnel, including Mr. Elias Vamvakas, Chairman of the Board of Directors, and Mr. James Wachtman, Chief Executive Officer. TLC*Vision* maintains key person insurance for each of Mr. Vamvakas, Mr. Wachtman and several key ophthalmologists. Despite having this insurance in place, the loss of any one of these key individuals could adversely affect the quality, profitability and growth prospects of TLC*Vision*'s business operations.

TLC*Vision* has employment or similar agreements with the above individuals and other key personnel. The terms of these agreements include, in some cases, entitlements to substantial severance payments in the event of termination of employment by either TLC*Vision* or the employee.

TLCVISION MAY BE SUBJECT TO MALPRACTICE AND OTHER SIMILAR CLAIMS AND MAY BE UNABLE TO OBTAIN OR MAINTAIN ADEQUATE INSURANCE AGAINST THESE CLAIMS.

The provision of medical services at TLC*Vision*'s centers entails an inherent risk of potential malpractice and other similar claims. Beginning October 1, 2002, all of TLC*Vision*'s U.S. professional malpractice insurance had a \$250,000 deductible per claim. For the period from June 1, 2003 through May 31, 2004, the Company was self-insured for Canadian claims. Patients at TLC*Vision*'s centers execute informed consent statements prior to any procedure performed by doctors at TLC*Vision*'s centers, but these consents may not provide adequate liability protection. Although TLC*Vision* does not engage in the practice of medicine or have responsibility for compliance with regulatory and other requirements directly applicable to doctors and doctor groups, claims, suits or complaints relating to services provided at TLC*Vision*'s centers may be asserted against TLC*Vision* in the future, and the assertion or outcome of these claims could result in higher administrative and legal expenses, including settlement costs or litigation damages.

TLC*Vision* currently maintains malpractice insurance coverage and accruals that it believes is adequate both as to risks and amounts covered. In addition, TLC*Vision* requires the doctors who provide medical services at its centers to maintain comprehensive professional liability insurance and most of these doctors have agreed to indemnify TLC*Vision* against certain malpractice and other claims. TLC*Vision*'s insurance coverage, however, may not be adequate to satisfy claims, insurance maintained by the doctors may not protect TLC*Vision* and such indemnification may not be enforceable or, if enforced, may not be sufficient. TLC*Vision*'s inability to

obtain adequate insurance or an increase in the future cost of insurance to *TLCVision* and the doctors who provide medical services at the centers may have a material adverse effect on its business and financial results.

The excimer laser system uses hazardous gases which if not properly contained could result in injury. *TLCVision* may not have adequate insurance for any liabilities arising from injuries caused by the excimer laser system or hazardous gases. While *TLCVision* believes that any claims alleging defects in *TLCVision's* excimer laser systems would usually be covered by the manufacturers' product liability insurance, the manufacturers of *TLCVision's* excimer laser systems may not continue to carry adequate product liability insurance.

TLCVISION MAY FACE CLAIMS FOR FEDERAL, STATE AND LOCAL TAXES.

TLCVision operates in 48 states and two Canadian provinces and is subject to various federal, state and local income, payroll, unemployment, property, franchise, capital, sales and use tax on its operations, payroll, assets and services. *TLCVision* endeavors to comply with all such applicable tax regulations, many of which are subject to different interpretations, and has hired outside tax advisors who assist in the process. Many states and other taxing authorities have been interpreting laws and regulations more aggressively to the detriment of taxpayers such as *TLCVision* and its customers. *TLCVision* believes that it has adequate provisions and accruals in its financial statements for tax liabilities, although it cannot predict the outcome of future tax assessments.

Tax authorities in three states have contacted *TLCVision* and issued proposed sales tax adjustments in the aggregate amount of approximately \$0.8 million for various periods through 2004 on the basis that certain of *TLCVision's* business arrangements constitute at least a partially taxable transaction rather than an exempt service. *TLCVision's* discussions with these three states are ongoing. If it is determined that any sales tax is owed, *TLCVision* believes that, under applicable laws and *TLCVision's* contracts with its customers, each customer is ultimately responsible for the payment of any applicable sales and use taxes in respect of *TLCVision's* services. However, *TLCVision* may be unable to collect any such amounts from its customers and in such event would remain responsible for payment. *TLCVision* cannot yet predict the outcome of these outstanding assessments or any other assessments or similar actions which may be undertaken by other state tax authorities. *TLCVision* has evaluated and implemented a comprehensive sales tax reporting system. *TLCVision* believes that it has adequate provisions in its financial statements with respect to these matters.

COMPLIANCE WITH INDUSTRY REGULATIONS IS COSTLY AND ONEROUS.

TLCVision's operations are subject to extensive federal, state and local laws, rules and regulations. *TLCVision's* efforts to comply with these laws, rules and regulations may impose significant costs, and failure to comply with these laws, rules and regulations may result in fines or other charges being imposed on *TLCVision*. The Company has incurred significant costs, and expects to incur additional costs in connection with compliance with the provisions of the Sarbanes-Oxley Act of 2002. Failure by the Company to comply with the provisions of Sarbanes-Oxley, including provision relating to internal financial controls, could have a material adverse effect on the Company.

Many state laws limit or prohibit corporations from practicing medicine and optometry, and many federal and state laws extensively regulate the solicitation of prospective patients, the structure of *TLCVision's* fees and its contractual arrangements with hospitals, surgery centers, ophthalmologists and optometrists, among others. Some states also impose licensing requirements. Although *TLCVision* has tried to structure its business and contractual relationships in compliance with these laws in all material respects, if any aspect of its operations were found to violate applicable laws, *TLCVision* could be subject to significant fines or other penalties, required to cease operations in a particular state, prevented from commencing operations in a particular state or otherwise be required to revise the structure of its business or legal arrangements. Many of these laws and regulations are ambiguous, have not been definitively interpreted by courts or regulatory authorities and vary from jurisdiction to jurisdiction. Accordingly, *TLCVision* may not be able to predict how these laws and regulations will be interpreted or applied by courts and regulatory authorities, and some of its activities could be challenged.

Numerous legislative proposals to reform the U.S. health care system have been introduced in Congress and in various state legislatures over the past several years. *TLCVision* cannot predict whether any of these proposals will be adopted and, if adopted, what impact this legislation would have on its business. To respond to any such changes, *TLCVision* could be required to revise the structure of its legal arrangements or the structure of its fees, incur substantial legal fees, fines or other costs, or curtail some of its business activities, reducing the potential profit of some of its arrangements.

State medical boards and state boards of optometry generally set limits on the activities of ophthalmologists and optometrists. In some instances, issues have been raised as to whether participation in a co-management program violates some of these limits. If a state authority were to find that *TLCVision's* co-management program did not comply with state licensing laws, *TLCVision* would be required to revise the structure of its legal arrangements, and affiliated doctors might terminate their relationships with *TLCVision*.

Federal and state civil and criminal statutes impose penalties, including substantial civil and criminal fines and imprisonment, on health care providers and persons who provide services to health care providers, including management businesses such as *TLCVision*, for fraudulently or wrongfully billing government or other insurers. In addition, the federal law prohibiting false Medicare/Medicaid billings allows a private person to bring a civil action in the name of the U.S. government for violations of its provisions and obtain a portion of the damages if the action is successful. *TLCVision* believes that it is in material compliance with these billing laws, but its business could be adversely affected if governmental authorities were to scrutinize or challenge its activities or private parties were to assert a false claim or action against us in the name of the U.S. government.

Although *TLCVision* believes that it has obtained the necessary licenses or certificates of need in states where such licenses are required and that *TLCVision* is not required to obtain any licenses in other states, some of the state regulations governing the need for such licenses are unclear, and there is no applicable precedent or regulatory guidance to help resolve these issues. A state regulatory authority could determine that *TLCVision* is operating a center inappropriately without a required license or certificate of need, which could subject *TLCVision* to significant fines or other penalties, result in *TLCVision* being required to cease operations in a state or otherwise jeopardize its business and financial results. If *TLCVision* expands to a new geographic market, *TLCVision* may be unable to obtain any new license required in that jurisdiction.

COMPLIANCE WITH ADDITIONAL HEALTH CARE REGULATIONS IN CANADA IS COSTLY AND BURDENSOME.

Some Canadian provinces have adopted conflict of interest regulations that prohibit optometrists, ophthalmologists or corporations they own or control from receiving benefits from suppliers of medical goods or services to whom they refer patients. The laws of some Canadian provinces also prohibit health care professionals from splitting fees with non-health care professionals and prohibit non-licensed entities such as *TLCVision* from practicing medicine or optometry and from directly employing doctors or optometrists. *TLCVision* believes that it is in material compliance with these requirements, but a review of *TLCVision's* operations by Canadian regulators or changes in the interpretation or enforcement of existing Canadian legal requirements or the adoption of new requirements could require *TLCVision* to incur significant costs to comply with laws and regulations in the future or require *TLCVision* to change the structure of its arrangements with doctors.

COMPLIANCE WITH U.S. FOOD AND DRUG ADMINISTRATION REGULATIONS REGARDING THE USE OF EXCIMER LASER SYSTEMS FOR LASER VISION CORRECTION IS COSTLY AND BURDENSOME.

To date, the FDA has approved excimer laser systems manufactured by some manufacturers for sale for the treatment of nearsightedness, farsightedness and astigmatism up to stated levels of correction. Failure to comply with applicable FDA requirements with respect to the use of the excimer laser could subject *TLCVision*, *TLCVision's* affiliated doctors or laser manufacturers to enforcement action, including product seizure, recalls, withdrawal of approvals and civil and criminal penalties.

The FDA has adopted guidelines in connection with the approval of excimer laser systems for laser vision correction. The FDA, however, has also stated that decisions by doctors and patients to proceed outside the FDA-approved guidelines are a practice of medicine decision, which the FDA is not authorized to regulate. Failure to comply with FDA requirements or any adverse FDA action, including a reversal of its interpretation with respect to the practice of medicine, could result in a limitation on or prohibition of *TLCVision's* use of excimer lasers.

Discovery of problems, violations of current laws or future legislative or administrative action in the United States or elsewhere may adversely affect the laser manufacturers' ability to obtain regulatory approval of laser equipment. Furthermore, the failure of other excimer laser manufacturers to comply with applicable federal, state or foreign regulatory requirements, or any adverse action against or involving such manufacturers, could limit the supply of excimer lasers, substantially increase the cost of excimer lasers, limit the number of patients that can be treated at its centers and limit *TLCVision's* ability to use excimer lasers.

Most of *TLCVision's* eye care centers in the United States use VISX and/or Alcon Laboratories Inc. excimer lasers and most of *TLCVision's* lasers are VISX excimer lasers. If VISX, Alcon or other excimer laser manufacturers fail to comply with applicable federal, state or foreign regulatory requirements, or if any adverse regulatory action is taken against or involves such manufacturers, the supply of lasers could be limited and the cost of excimer lasers could increase.

The Roll-On/Roll-Off laser system consists of an excimer laser mounted on a motorized, air suspension platform and transported in a specially modified truck. *TLCVision* believes that use of this transport system does not require FDA approval; the FDA has taken no position in regard to such approval. The FDA could, however, take the position that excimer lasers are not approved for use in this transport system. Such a view by the FDA could lead to an enforcement action against *TLCVision*, which could impede *TLCVision's* ability to maintain or increase its volume of excimer laser surgeries. This could have a material adverse effect on *TLCVision's*

business and financial results. Similarly, *TLCVision* believes that FDA approval is not required for its mobile use of microkeratomes or the cataract equipment transported by its cataract operations. The FDA, however, could take a contrary position that could result in an enforcement action.

DISPUTES WITH RESPECT TO INTELLECTUAL PROPERTY COULD ADVERSELY AFFECT *TLCVISION*'S BUSINESS.

There has been substantial litigation in the United States and Canada regarding the patents on ophthalmic lasers. Although the Company currently leases or purchases excimer lasers and other technology from the manufacturers, if the use of an excimer laser or other procedure performed at any of *TLCVision*'s centers is deemed to infringe a patent or other proprietary right, *TLCVision* may be prohibited from using the equipment or performing the procedure that is the subject of the patent dispute or may be required to obtain a royalty-bearing license, which may involve substantial costs, including ongoing royalty payments. If a license is not available on acceptable terms, *TLCVision* may be required to seek the use of products which do not infringe the patent.

TLCVision, through its subsidiary, LaserVision, has also secured patents for portions of the equipment it uses to transport *TLCVision*'s mobile lasers. LaserVision's patents and other proprietary technology are important to *TLCVision*'s success. These patents could be challenged, invalidated or circumvented in the future. Litigation regarding intellectual property is common and *TLCVision*'s patents may not adequately protect its intellectual property. Defending and prosecuting intellectual property proceedings is costly and involves substantial commitments of management time. If the Company fails to successfully defend its rights with respect to its intellectual property, it may be required to pay damages and cease using its equipment to transport mobile lasers, which may have a material adverse effect on its business.

TLCVISION MAY NOT HAVE THE CAPITAL RESOURCES NECESSARY IN ORDER TO KEEP UP WITH RAPID TECHNOLOGICAL CHANGES.

Modern medical technology changes rapidly. New or enhanced technologies and therapies may be developed with better performance or lower costs than the laser vision correction currently provided at *TLCVision*'s centers. *TLCVision* may not have the capital resources to upgrade its excimer laser equipment, acquire new or enhanced medical devices or adopt new or enhanced procedures at the time that any advanced technology or therapy is introduced.

THE ABILITY OF *TLCVISION*'S SHAREHOLDERS TO EFFECT CHANGES IN CONTROL OF *TLCVISION* IS LIMITED.

TLCVision has a shareholder rights plan which enables the Board of Directors to delay a change in control of *TLCVision*. This could discourage a third party from attempting to acquire control of *TLCVision*, even if an attempt would be beneficial to the interests of the shareholders. In addition, since *TLCVision* is a Canadian corporation, investments in *TLCVision* may be subject to the provisions of the Investment Canada Act. In general, this act provides a system for the notification to the Investment Canada agency of acquisitions of Canadian businesses by non-Canadian investors and for the review by the Investment Canada agency of acquisitions that meet thresholds specified in the act. To the extent that a non-Canadian person or company attempted to acquire 33% or more of *TLCVision*'s outstanding common stock, the threshold for a presumption of control, the transaction could be reviewable by the Investment Canada agency. These factors and others could have the effect of delaying, deferring or preventing a change of control of *TLCVision* supported by shareholders but opposed by *TLCVision*'s Board of Directors.

AS THE MAJORITY OWNER OF OCCULOGIX, INC., *TLCVISION* MAY BE REQUIRED TO FUND ADDITIONAL CAPITAL REQUIREMENTS

OccuLogix, Inc., reported approximately \$60.0 million of cash and short-term investments as of December 31, 2004, largely as a result of its initial public offering in December 2004. OccuLogix, Inc. anticipates that the funding requirements for its activities will continue to increase substantially, primarily due to its efforts to achieve FDA approval for and to commercialize the RHEO™ System. OccuLogix, Inc. may need to seek additional funds in the future, and *TLCVision* may be required to fund OccuLogix Inc.'s additional capital requirements as the majority shareholder in order to avoid dilution of the value of its ownership.

TLCVISION'S STOCK PRICE MAY BE IMPACTED BY THE OPERATING RESULTS OF OCCULOGIX, INC., AND ITS SUCCESS IN COMMERCIALIZING THE RHEO™ SYSTEM.

Because *TLCVision* is the majority shareholder of OccuLogix, Inc. the results of operations of this entity are consolidated into the operating results of *TLCVision*'s other pre-existing businesses. OccuLogix, Inc. expects to continue to report significant and increasing operating losses at least through 2006 and possibly beyond. Because of the numerous risks and uncertainties associated with developing and commercializing new medical therapies, including obtaining FDA approval, OccuLogix, Inc. is unable to predict the extent of any future losses or when it will become profitable, if ever. Because *TLCVision* is a significant shareholder of

OccuLogix, Inc., its operating results and stock price may be negatively impacted by the requirement that it report OccuLogix, Inc.'s results of operations on a consolidated basis. Additionally, there is no guarantee that OccuLogix, Inc. will be successful in commercializing RHEO™ System, and should such efforts fail, TLC*Vision* will be required to write-off its remaining investment in OccuLogix, Inc.

As a significant shareholder of OccuLogix, Inc., TLC*Vision*'s stock price may be affected by changes in the price of OccuLogix, Inc.'s common stock. TLC*Vision* is unable to predict how fluctuations in OccuLogix, Inc.'s stock price will affect its own stock price.

ITEM 2. PROPERTIES

The Company's 73 branded centers are located in leased premises. The leases are negotiated on market terms and typically have terms of five to ten years. The Company also maintains investment interests in three secondary care practices located in Michigan, Oklahoma and Ohio. The secondary care practice in Michigan has five satellite locations and a majority ownership in an ambulatory surgery center. The secondary care practice in Oklahoma has two satellite locations and the secondary practice in Ohio has one location.

TLC*Vision*'s International Headquarters and the Rheo Clinic are located in premises in Mississauga, Ontario, Canada. TLC*Vision*'s U.S. Corporate Office is located in approximately 20,500 square feet of leased office space in St. Louis, Missouri under a lease that will expire in 2006. TLC*Vision* also maintains approximately 7,000 square feet of office/warehouse space in Bloomington, Minnesota for its cataract operations. The Bloomington facility lease expires in 2009.

The terms of the Company's leases provide for total aggregate monthly lease obligations of approximately \$0.7 million in 2005.

ITEM 3. LEGAL PROCEEDINGS

In March 2003, the Company and its subsidiary, OR Providers, Inc., were served with subpoenas issued by the U.S. Attorney's Office in Cleveland, Ohio. The subpoenas appear to relate to business practices of OR Providers prior to its acquisition by LaserVision in December 2001. OR Providers is a provider of mobile cataract services in the eastern part of the United States. The Company is aware that other entities and individuals have also been served with similar subpoenas. The subpoenas seek documents related to certain business activities and practices of OR Providers. The Company cooperated fully to comply with the subpoenas. In December 2004, the Company was advised by the office of the U.S. Attorney in Cleveland that the U.S. Attorney no longer had a need for the documents the Company supplied in compliance with the above-referenced subpoenas. Although there can be no assurance, the Company believes that this matter has been concluded.

In January 2004, the Company was served with a lawsuit filed in the Province of Ontario, Canada, by Omar Hakim, MD. The suit sought damages based on plaintiff's allegations of breach of contract, negligent misrepresentation and detrimental reliance. On December 24, 2004, the Company paid \$0.6 million to Omar Hakim, MD to purchase the minority interest of two laser centers which were 75% owned by the Company and to settle legal disputes.

The Company is involved in various claims and legal actions in the ordinary course of its business, which may or may not be covered by insurance. These matters include, without limitation, professional liability, employee-related matters and inquiries and investigations by governmental agencies. While the ultimate results of such matters cannot be predicted with certainty, the Company believes that the resolution of these matters will not have a material adverse effect on its consolidated financial position or results of operations.

Except as set forth above, there have been no other material legal proceedings outstanding.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Common Shares are listed on the Toronto Stock Exchange under the symbol "TLC" and on the NASDAQ National Market under the symbol "TLCV." The following table sets forth, for the periods indicated, the high and low closing prices per Common Share of the Common Shares on the Toronto Stock Exchange and the Nasdaq National Market:

	THE TORONTO STOCK EXCHANGE		NASDAQ NATIONAL MARKET	
	HIGH	LOW	HIGH	LOW
Fiscal 2002				
First Quarter August 31, 2001	C\$8.48	C\$5.76	\$ 5.54	\$ 3.72
Second Quarter November 30, 2001	6.09	3.00	3.86	1.87
Third Quarter February 28, 2002.....	5.77	3.15	3.60	2.04
Fourth Quarter May 31, 2002.....	5.95	3.50	3.72	2.13
Transitional Period 2002				
Month ended June 30, 2002	C\$5.20	C\$3.47	\$ 3.25	\$ 2.30
Third Quarter September 30, 2002.....	4.20	1.30	2.77	0.80
Fourth Quarter December 31, 2002.....	3.39	1.28	2.20	0.79
Fiscal 2003				
First Quarter March 31, 2003	C\$2.15	C\$1.32	\$ 1.41	\$ 0.91
Second Quarter June 30, 2003.....	7.54	1.64	5.20	1.16
Third Quarter September 30, 2003.....	9.43	5.83	6.87	4.35
Fourth Quarter December 31, 2003.....	10.01	6.85	7.54	5.32
Fiscal 2004				
First Quarter March 31, 2004	C\$15.38	C\$8.32	\$ 11.75	\$ 6.50
Second Quarter June 30, 2004.....	17.50	13.42	12.82	9.81
Third Quarter September 30, 2004.....	15.55	10.37	11.92	7.95
Fourth Quarter December 31, 2004.....	14.90	10.36	12.24	8.48

RECORD HOLDERS

As of March 11, 2005, there were approximately 829 record holders of the Common Shares.

DIVIDENDS

The Company has never declared or paid cash dividends on the Common Shares. It is the current policy of the Board of Directors of the Company to retain earnings to finance growth and development of its business, and therefore, the Company does not anticipate paying cash dividends on its Common Shares in the near future. In addition, the Company's ability to pay dividends is currently restricted pursuant to the line of credit facility.

SHARE REPURCHASE PLAN

On December 20, 2004, TLC*Vision* announced that it intended to purchase up to 2,000,000 shares of its outstanding common shares. Upon approval of the buy-back from the Toronto Stock Exchange, the purchases may take place from time to time, depending on market conditions, through the facilities of the NASDAQ National Market and the Toronto Stock Exchange. The prices which TLC*Vision* will pay for any common shares will be the market price of the shares at the time of acquisition. As of December 31, no shares had been repurchased pursuant to this plan.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2004, regarding compensation plans under which equity securities of *TLCVision* are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders.....	4,203	\$5.08(1)	1,076
Equity compensation plans not approved by security holders.....	--	--	--
Total	<u>4,203</u>	<u>\$5.08(1)</u>	<u>1,076</u>

(1) Represents the weighted-average exercise price of outstanding options, warrants and rights denominated in U.S. dollars. The weighted-average exercise price of outstanding options, warrants and rights denominated in Canadian dollars was \$5.04.

See Note 14 to the audited consolidated financial statements for more information regarding the material features of the Company's outstanding options, warrants and rights.

ITEM 6. SELECTED FINANCIAL DATA

In May 2002, the Company completed the acquisition of LaserVision, a leading laser access service provider and cataract services provider. The transaction was effected as an all-stock merger in which each outstanding common share of LaserVision was exchanged for 0.95 share of the Company, which resulted in the issuance of 26.6 million Common Shares. In addition, in connection with the transaction the Company assumed all of the outstanding options and warrants of LaserVision and exchanged them for options to acquire approximately 8.0 million Common Shares. See Note 4 to the consolidated financial statements of the Company included in Item 8 of this Report.

The following tables set forth selected historical consolidated financial data of *TLCVision* for the years ended December 31, 2004 and 2003, twelve months ended December 31, 2002, seven-month transitional period ended December 31, 2002 and each of the fiscal years ended May 31, 2002, 2001 and 2000, which have been derived from the consolidated financial statements of the Company included elsewhere in this Form 10-K and the consolidated financial statements of the Company included in the Company's May 31, 2002, 2001 and 2000 Annual Reports on Form 10-K, and the unaudited twelve-month period ended December 31, 2002. The following table should be read in conjunction with the Company's financial statements, the related notes thereto and the information contained in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

	<u>2000</u>	<u>2001(2)</u>	<u>2002(3)</u>	<u>SEVEN-MONTH PERIOD ENDED DECEMBER 31, 2002(4)</u>	<u>TWELVE MONTHS ENDED DECEMBER 31, 2002(5)</u>	<u>YEAR ENDED DECEMBER 31, 2003(6) 2004(7)</u>	
					UNAUDITED		
(U.S. dollars, in thousands except per share amounts, shares and operating data)							
STATEMENT OF OPERATIONS DATA							
Net revenues	\$ 201,223	\$ 174,006	\$ 134,751	\$ 100,154	\$ 164,605	\$ 195,680	\$ 242,195
Cost of revenues	129,234	110,016	97,789	80,825	125,163	143,305	165,686
Gross margin.....	71,989	63,990	36,962	19,329	39,442	52,375	76,509
General and administrative	44,341	44,464	36,382	25,567	38,158	31,204	33,128
Income (loss) before cumulative effect of accounting change	(5,918)	(37,773)	(146,675)	(43,343)	(144,731)	(9,399)	43,708
Income (loss) per share before cumulative effect of accounting change, diluted	\$(0.16)	\$(1.00)	\$(3.74)	\$(0.68)	\$(2.68)	\$(0.15)	\$0.61
Weighted average number of Common Shares outstanding, diluted.....	37,778	37,779	39,215	63,407	54,077	64,413	71,088

	<u>2000</u>	<u>2001(2)</u>	<u>2002(3)</u>	<u>SEVEN-MONTH PERIOD ENDED DECEMBER 31, 2002(4)</u>	<u>TWELVE MONTHS ENDED DECEMBER 31, 2002(5)</u>	<u>YEAR ENDED DECEMBER 31, 2003(6) 2004(7)</u>	
OPERATING DATA (unaudited)							
Number of eye care centers at end of period	62	59	80	84	84	76	73
Number of access service sites(1)							
Refractive	--	--	336	304	304	270	327
Cataract.....	--	--	280	274	274	359	371
Number of laser vision correction procedures:							
Centers.....	134,000	122,800	95,000	49,700	95,000	100,500	115,700
Access.....	--	--	--	43,200	47,000	75,600	80,700
Cataract.....	--	--	--	23,300	24,800	40,700	43,700
Total procedures.....	134,000	122,800	95,000	116,200	166,800	216,800	240,100

	<u>MAY 31, 2000</u>	<u>MAY 31, 2001</u>	<u>MAY 31, 2002</u>	<u>DECEMBER 31, 2002</u>	<u>DECEMBER 31, 2003</u>	<u>DECEMBER 31, 2004</u>
BALANCE SHEET DATA						
Cash and cash equivalents	\$ 78,531	\$ 47,987	\$ 45,074	\$ 34,231	\$ 21,580	\$ 33,435
Working capital	59,481	42,366	23,378	12,523	10,868	131,195
Total assets	289,364	238,438	245,515	196,056	190,748	305,241
Long-term debt, excluding current portion	6,728	8,313	14,643	15,760	19,242	9,991
SHAREHOLDERS' EQUITY						
Common stock.....	269,953	276,277	387,701	388,769	397,878	458,959
Warrants and options	532	532	11,755	11,035	8,143	2,872
Accumulated deficit.....	(42,388)	(80,161)	(242,010)	(285,353)	(294,752)	(251,044)
Accumulated other comprehensive income (loss).....	(4,451)	(9,542)	--	--	--	--
Total shareholders' equity.....	223,646	187,106	155,014	111,828	111,269	210,787

- (1) An access service site has provided services in the preceding 90 days.
- (2) In fiscal 2001, the selected financial data of the Company included a restructuring charge of \$19.1 million.
- (3) In fiscal 2002, the selected financial data of the Company included:
 - (a) a charge of \$81.7 million for impairment of intangibles;
 - (b) a write down of \$26.1 million in the fair value of investments and long-term receivables;
 - (c) a restructuring charge of \$8.8 million; and
 - (d) a reduction of \$2.6 million in the carrying value of fixed assets.
- (4) In the seven months ended December 31, 2002, the selected financial data of the Company included:
 - (a) a charge of \$22.1 million for impairment of intangibles;
 - (b) a write down of \$2.1 million in the fair value of investments and long-term receivables;

- (c) other income of \$6.8 million for settlement of a class action lawsuit with laser manufacturers;
 - (d) a restructuring charge of \$4.7 million; and
 - (e) a reduction of \$1.0 million in the carrying value of fixed assets.
- (5) In the twelve-month period ended December 31, 2002, the selected financial data of the Company included:
- (a) a charge of \$103.9 million for impairment of intangibles;
 - (b) a write down of \$7.1 million in the fair value of investments and long-term receivables;
 - (c) other income of \$6.8 million for settlement of a class action lawsuit with laser manufacturers;
 - (d) a restructuring charge of \$11.2 million; and
 - (e) a reduction of \$1.5 million in the carrying value of fixed assets.
- (6) In fiscal 2003, the selected financial data of the Company included a restructuring charge of \$2.0 million.
- (7) In fiscal 2004, the selected financial data of the Company included:
- (a) an adjustment to the fair value of investments and long-term receivables of \$1.2 million;
 - (b) other income of \$25.8 from the gain on sale of OccuLogix, Inc. stock; and
 - (c) a severance charge of \$2.6 million and a restructuring charge of \$0.2 million.

ITEM 7. 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 should be read in conjunction with the consolidated financial statements and the related notes thereto, which are included in Item 8 of this Form 10-K. The following discussion is based upon the Company's results under U.S. generally accepted accounting principles. Unless otherwise specified, all dollar amounts are U.S. dollars.

OVERVIEW

TLC Vision Corporation and its subsidiaries is a diversified eye care services company dedicated to improving lives through better vision by providing eye doctors with the tools and technologies they need to deliver high quality patient care. The majority of the Company's revenues come from refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company's business models include arrangements ranging from owning and operating fixed site centers to providing access to lasers through fixed site and mobile service relationships. In addition to refractive surgery, the Company is diversified into other eye care businesses. Through its Midwest Surgical Services, Inc. ("MSS") subsidiary, the Company furnishes hospitals and independent surgeons with mobile or fixed site access to cataract surgery equipment and services. Through its OR Partners, Aspen Healthcare and Michigan subsidiaries, *TLCVision* develops, manages and has equity participation in single-specialty eye care ambulatory surgery centers and multi-specialty ambulatory surgery centers. The Company also owns a 51% majority interest in Vision Source, which provides franchise opportunities to independent optometrists. The Company is also a 51% majority owner of OccuLogix, Inc., a public company focused on the treatment of a specific eye disease known as dry age-related macular degeneration, via rheopheresis, a process for filtering blood.

Effective June 1, 2002, the Company changed its fiscal year-end from May 31 to December 31.

In accordance with an Agreement and Plan of Merger with LaserVision Centers, Inc. (LaserVision), the Company completed a business combination with LaserVision on May 15, 2002, which resulted in LaserVision becoming a wholly-owned subsidiary of *TLCVision*. Accordingly, LaserVision's results are included in the Company's statement of operations beginning on the date of acquisition. LaserVision is a leading access service provider of excimer lasers, microkeratomes and other equipment and value and support services to eye surgeons. The combined companies provide a broader array of services to eye care professionals to ensure these individuals provide superior quality of care and achieve outstanding clinical results. The Company believes this will be the long-term determinant of success in the eye surgery services industry.

The Company continually assesses patient, optometric and ophthalmic industry trends and developing strategies to improve laser vision correction procedure volumes and increase revenues. Cost reduction initiatives continue to target the effective use of funds, and our growth initiative is focusing on future development opportunities for the Company in the eye care industry.

The Company recognizes revenues at the time procedures are performed or services are rendered. Revenues include amounts charged patients for procedures performed at laser centers, amounts charged physicians for laser access and service fees, and management fees from managing refractive and secondary care practices. Under the terms of management service agreements, the Company provides non-clinical services, which include facilities, staffing, equipment lease and maintenance, marketing and

administrative services to refractive and secondary care practices in return for management fees. The management fees are typically addressed as a per procedure fee. For third party payor programs and corporations with arrangements with *TLCVision*, the Company's management fee and the fee charged by the surgeon are both discounted in proportion to the discount afforded to these organizations. While the Company does not direct the manner in which the surgeons practice medicine, the Company does direct the day-to-day non-clinical operations of the centers. The management service agreements typically are for an extended period of time, ranging from five to 15 years. Management fees are equal to the net revenue of the physician practice, less amounts retained by the physician groups.

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 predefined Company-wide per procedure revenue threshold. Procedures that may be invoiced for less than the threshold amounts (primarily for promotional or marketing purposes) are not included in the reported procedure volume numbers.

Doctors' compensation as presented in the financial statements represents the cost to the Company of engaging ophthalmic professionals to perform laser vision correction services at the Company's laser centers and fees paid to optometrists for pre- and post-operative care.

Included in costs of revenue are the laser fees payable to laser manufacturers for royalties, use and maintenance of the lasers, variable expenses for consumables and facility fees, as well as center costs associated with personnel, facilities and depreciation of center assets.

Selling, general and administrative expenses include expenses that are not directly related to the provision of laser correction services or cataract services.

The Company serves surgeons who performed approximately 240,100 refractive and cataract procedures at the Company's centers or used the Company's laser access services during the year ended December 31, 2004. In the twelve months ended December 31, 2004, the Company's refractive procedure volume increased to 196,400 compared to 176,100 in the twelve months ended December 31, 2003, an increase of 20,300 procedures or 12%. The Company believes that the increase in procedure volume was indicative of the growth in the laser vision correction industry as a whole as well as an effective execution of its business strategy. Being an elective procedure, laser vision correction volumes will fluctuate due to changes in economic and stock market conditions, unemployment rates, consumer confidence and political uncertainty. Demand for laser vision correction also is affected by perceived safety and effectiveness concerns arising from the lack of long-term follow-up data.

DEVELOPMENTS DURING FISCAL 2004

ACQUISITIONS AND DIVESTITURES

On January 1, 2004, the Company settled a lawsuit brought by Thomas S. Tooma, M.D. and TST Acquisitions, LLC ("TST") in October 2002. Under the terms of the settlement, the Company sold approximately 24% of Laser Eye Care of California ("LECC") and 30% of its California access business to TST for \$2.3 million. The Company continues to hold a 30% ownership in LECC and a 70% ownership in the California access business. The Company recorded a \$1.1 million gain on the sale of these business interests which is included in "general and administrative" in the accompanying statements of operations. Effective January 1, 2004, the Company deconsolidated LECC and began reporting its interest in LECC under the equity method of accounting because it no longer owned a controlling interest in the entity.

On March 1, 2004, OR Partners, Inc. ("OR Partners"), a subsidiary of *TLCVision*, entered into a purchase agreement to acquire 70% of an ambulatory surgery center ("ASC") in Texas, which provides access to surgical and diagnostic equipment to perform cataract surgery in hospitals and ambulatory surgery centers. The Company paid \$3.8 million in cash and assumed debt of \$0.4 million. The purchase price allocation included \$4.1 million of goodwill. The results of operations have been included in the consolidated statements of operations of the Company since the acquisition date.

On August 1, 2004, the Company paid \$0.7 million in cash to acquire an additional 5% interest in an ASC in Mississippi which specializes in cataract surgery, raising its ownership interest to 65%. The Company also has an obligation to purchase an additional 5% ownership interest per year for \$0.7 million in cash per year during each of the next two years.

On December 1, 2004, OR Partners entered into a purchase agreement to acquire 25% of an ASC in Texas. The Company paid \$4.5 million in cash and has reported its interest in the ASC under the equity method of accounting since the date of acquisition.

On December 8, 2004, the Company exchanged its 50% interest in OccuLogix L.P. for a 50% interest in OccuLogix, Inc. (formerly Vascular Sciences Corporation). After the exchange, the Company owned 65.8% of the outstanding common shares of OccuLogix, Inc. (OccuLogix). As a result of the exchange, OccuLogix L.P. became a wholly-owned subsidiary of OccuLogix. The Company accounted for the exchange at historical cost. Immediately after the exchange, OccuLogix completed an initial public offering (IPO) whereby OccuLogix sold 5,600,000 shares of its common stock at \$12 per share. Because the IPO price exceeded the per share carrying amount of the Company's investment in OccuLogix, the Company's equity ownership in OccuLogix after the IPO exceeded its equity ownership before the IPO by \$30.1 million. In accordance with Staff Accounting Bulletin No. 84, the Company accounted for the excess as an equity transaction. In connection with the IPO, *TLCVision* sold 2,330,184 shares of its OccuLogix common stock at \$12 per share and recorded a gain of \$25.8 million. At December 31, 2004, the Company owns 21,475,064 shares or 51.4% of OccuLogix common stock. The Company has included the results of operations of OccuLogix in its consolidated statement of operations since December 8, 2004.

On December 24, 2004, the Company paid \$0.6 million to Omar Hakim, MD to purchase the minority interest of two laser centers which were 75% owned by the Company and to settle legal disputes.

RESTRUCTURING, SEVERANCE AND OTHER CHARGES

During the year ended December 31, 2004, the Company recorded a \$2.6 million charge for severance payments to two officers under the terms of employment contracts and a \$0.2 million charge related to ongoing lease payment obligations at previously closed centers. The remaining severance payments are expected to be paid out within the next 12 months, while the lease costs will be paid out over the remaining terms of the leases.

RESEARCH AND DEVELOPMENT

During fiscal 2002, the Company entered into a joint venture with OccuLogix for the purpose of pursuing commercial applications of technologies owned or licensed by OccuLogix applicable to the evaluation, diagnosis, monitoring and treatment of dry age related macular degeneration. Prior to the reorganization and initial public offering ("IPO") of OccuLogix, the Company accounted for its investment as a research and development arrangement since the technology was in the development stage and has not received FDA approval. The Company purchased \$1.0 million and \$2.0 million in Series B preferred stock in the year ended May 31, 2002 and the transitional period ended December 31, 2002, respectively, and expensed it as a research and development arrangement. During 2003, the Company agreed to advance up to an additional \$6.0 million to OccuLogix pursuant to a secured convertible grid debenture. The first \$3.5 million advanced pursuant to such debenture is convertible into common shares of OccuLogix. OccuLogix also granted an option to the Company to acquire an amount of common shares equal to the undrawn portion of the debenture at any point in time. In fiscal 2003, the Company expensed \$1.6 million to research and development related to payments made to OccuLogix during the year. Of this amount, \$1.3 million reduced the value of the \$6.0 million obligation to OccuLogix, and \$0.3 million represented an additional equity investment in Common Stock and therefore did not reduce the amount of the remaining obligation. In fiscal 2004, the Company advanced \$2.2 million to OccuLogix, satisfying the \$3.5 million obligation that was converted into shares of OccuLogix. Of this amount, the Company advanced \$1.2 million to OccuLogix in the first three quarters of 2004 and expensed it as research and development. The remaining advance to OccuLogix of \$1.0 million in the fourth quarter of 2004 was recorded as an investment because it was not used by OccuLogix for operating purposes, but rather was available at December 31, 2004 for future needs. Due to the IPO of OccuLogix, the Company was not required to fund any additional amounts. For the year ended December 31, 2004, the \$1.2 million research and development expense related to OccuLogix was offset by a \$0.4 million reimbursement of an unrelated research and development investment that was previously expensed.

CRITICAL ACCOUNTING POLICIES

IMPAIRMENT OF GOODWILL

The Company accounts for its goodwill in accordance with SFAS 142, which requires the Company to test goodwill for impairment annually and whenever events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. SFAS 142 requires the Company to determine the fair value of its reporting units. Because quoted market prices do not exist for the Company's reporting units, the Company uses the present value of expected future cash flows to estimate fair value. Management must make significant estimates and assumptions about future conditions to estimate future cash flows. If these estimates or their related assumptions change in the future, including general economic and competitive conditions, the Company may be required to record impairment charges related to these assets. During the transitional period ended December 31, 2002 and the fiscal year ended May 31, 2002, the Company determined that significant impairments in the value of the goodwill had occurred and recorded charges to earnings in both periods.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company accounts for its long-lived assets in accordance with SFAS 144, which requires the Company to assess the recoverability of these assets when events or changes in circumstances indicate that the carrying amount of the long-lived asset (group) might not be recoverable. If impairment indicators exist, the Company determines whether the projected undiscounted cash flows will be sufficient to cover the carrying value of such assets. This requires the Company to make significant judgments about the expected future cash flows of the asset group. The future cash flows are dependent on general and economic conditions and are subject to change. A change in these assumptions could result in material charges to income. During the fiscal year ended May 2002, the Company determined that a significant impairment in the value of its amortizable intangible assets and certain of its fixed assets had occurred and recorded a charge to earnings.

RECOVERABILITY OF DEFERRED TAX ASSETS

The Company has generated deferred tax assets and liabilities due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the income tax basis of such assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets to the amount expected to be realized. In assessing the adequacy of the valuation allowances, the Company considers the scheduled reversal of deferred tax liabilities, future taxable income and prudent and feasible tax planning strategies. At December 31, 2004, the Company had valuation allowances of \$132.1 million to offset net deferred tax assets of \$132.1 million. The valuation allowance was based on the Company's assessment that recovery of the deferred tax assets is not likely due to the Company's history of generating taxable losses. In the event the Company determines it is likely to be able to use a deferred tax asset in the future in excess of its net carrying value, the valuation allowance would be reduced, thereby increasing net income in the period such determination was made.

ACCRUAL OF MEDICAL MALPRACTICE CLAIMS

The nature of the Company's business is such that it is subject to medical malpractice lawsuits. To mitigate a portion of this risk, the Company maintains insurance in the U.S. for individual malpractice claims with a deductible of \$250,000 per claim and a total annual aggregate deductible of \$15 million. The Company is self-insured for its operations in Canada. Management and the Company's insurance carrier review malpractice lawsuits for purposes of establishing ultimate loss estimates. The Company has recorded reserves to cover the estimated costs of the deductible for both reported and unreported medical malpractice claims incurred. The estimates are based on the average monthly claims expense and the estimated average time lag between the performance of a procedure and notification of a claim. If the number of claims or the cost of settle claims is higher than the Company's historical experience or if the actual time lag varies from the estimated time lag, the Company may need to record significant additional expense.

RISK FACTORS

See "Item 1 - Business - Risk Factors."

YEAR ENDED DECEMBER 31, 2004 COMPARED TO THE YEAR ENDED DECEMBER 31, 2003

As a result of adopting Financial Accounting Standards Board Interpretation 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46), the Company began consolidating the physician practices that are managed but not owned by the Company on January 1, 2004. The consolidation resulted in the Company recording an additional \$16.2 million in center revenue and \$16.0 million in center cost of revenue during 2004 as the revenue earned and expenses paid (primarily doctors' compensation) by the physician practices are now included in the Company's results. The consolidation had no impact on net income.

Prior to the adoption, doctors' compensation and related revenue were not reflected in the Company's statement of operations for the managed centers, but were reflected in the Company's statement of operations for the owned centers. The Company previously presented the revenues and cost of revenues of managed centers and owned centers separately in the statements of operations due to different profit margins. Beginning with the first quarter of 2004, the Company presents all centers, managed and owned, together because both types of centers now include doctors' compensation and the related revenue.

The increase in center revenue attributed to the adoption of FIN 46 was partially offset by the deconsolidation of LECC in connection with the sale of a portion of the Company's interest in LECC. The results of operations for 2003 included \$14.8 million in center revenues related to LECC whereas the results of operations for 2004 include no center revenue for LECC because LECC was accounted for using the equity method of accounting beginning January 1, 2004.

Total revenues for the year ended December 31, 2004 were \$242.2 million, an increase of \$46.5 million, or 24% over revenues of \$195.7 million for the year ended December 31, 2003. Approximately 73% of total revenues for the year ended December 31, 2004 were derived from refractive services compared to 75% during the year ended December 31, 2003.

Revenues from the refractive segment for the year ended December 31, 2004 were \$177.4 million, an increase of \$31.2 million or 21% over revenues of \$146.2 million for the year ended December 31, 2003. The increase in refractive revenues was due largely to an increase in refractive procedures. Refractive procedures for the year ended December 31, 2004 were approximately 196,400, an increase of 20,300 or 12% over refractive procedures of 176,100 for the year ended December 31, 2003. Procedures for LECC were included in both periods, and account for 16,700 procedures for the year ended December 31, 2004, an increase of 3,900 procedures over the year ended December 31, 2003. Refractive revenues also increased as a result of a higher mix of procedures performed at the Company's centers and higher average pricing.

Revenues from centers for the year ended December 31, 2004 were \$136.7 million, an increase of \$26.6 million or 24% over revenues of \$110.1 million for the year ended December 31, 2003. The increase in centers revenues was due, in part, to a 15,300 or 15% increase in centers procedures. Centers revenues also increased as a result of higher average pricing and additional revenue as a result of adopting FIN 46 offset by decreased revenue from deconsolidating LECC.

Revenues from access services for the year ended December 31, 2004 were \$40.7 million, an increase of \$4.6 million or 13% over revenues of \$36.1 million for the year ended December 31, 2003. The increase in access revenues was primarily due to an 5,100 or 7% increase in access procedures and an increase in procedure mix to the higher priced transportable business.

The cost of refractive revenues for the year ended December 31, 2004 was \$125.3 million, an increase of \$13.8 million, or 12%, over the cost of refractive revenues of \$111.5 million for the year ended December 31, 2003. This increase was primarily attributable to increased procedure volume and higher costs associated with Custom LASIK. Primarily as a result of higher procedure volumes at centers, gross margins for the refractive business as a whole increased to 29% for the year ended December 31, 2004 from 24% for the year ended December 31, 2003.

The cost of revenues from centers for the year ended December 31, 2004 was \$96.4 million, an increase of \$10.4 million or 12% over the cost of revenues of \$86.0 million from the year ended December 30, 2003. This increase primarily resulted from \$5.8 million of additional costs related to increased procedure volume and higher costs associated with Custom LASIK, and \$16.0 million of costs resulting from the Company's adoption of FIN 46 effective January 1, 2004. These increases were offset by \$11.4 million in cost of revenues for LECC during the year ended December 31, 2003 (as compared to none during the year ended December 31, 2004).

Gross margins from centers increased to 30% for the year ended December 31, 2004 from 22% during the year ended December 31, 2003 as higher procedure volumes led to strong incremental variable margin gains. This margin percentage increase was diluted by the consolidation of the physician practices managed by the Company due to the adoption of FIN 46. For comparison purposes, had the Company consolidated the physician practices during 2003, the gross margin percentage would have been 19% for the year ended December 31, 2003.

The cost of revenues from access services for the year ended December 31, 2004 was \$28.9 million, up \$3.5 million or 14% over the cost of revenues of \$25.4 million for the year ended December 31, 2003. This increase primarily resulted from higher procedure volume and higher costs associated with Custom LASIK. Gross margins from access services decreased to 29% for the year ended December 31, 2004 from 30% during the year ended December 31, 2003. This margin percentage decrease was primarily due to pricing pressure from competitors and higher costs associated with Custom LASIK.

Revenues from other healthcare services for the year ended December 31, 2004 were \$64.8 million, an increase of \$15.3 million, or 31% over revenues of \$49.5 million for the year ended December 31, 2003. Approximately 27% of the total revenues for the year ended December 31, 2004 were derived from other healthcare services compared to 25% during the year ended December 31, 2003. The increase in other healthcare services revenue primarily resulted from internal growth of existing businesses and contributions from ASC businesses acquired within the past year.

The cost of revenues from other healthcare services for the year ended December 31, 2004 was \$40.4 million, an increase of \$8.6 million or 27% over the cost of revenues of \$31.8 million for the year ended December 31, 2003. The increase in cost of revenues was primarily related to incremental costs incurred to generate the increased revenue of the other healthcare service business. Gross margins increased to 38% from 36% due principally to volume growth.

General and administrative expenses increased to \$33.1 million for the year ended December 31, 2004 from \$31.2 million for the year ended December 31, 2003. The \$1.9 million or 6% increase relates to higher professional fees related to Sarbanes-Oxley and

increased costs associated with acquisitions during the year. General and administrative expenses as a percentage of revenue decreased to 14% from 16% compared to the prior year.

Marketing expenses decreased to \$13.4 million for the year ended December 31, 2004 from \$14.1 million for the year ended December 31, 2003. The \$0.7 million or 5% decrease reflected the Company's success in increasing revenue while controlling marketing expenses. Accordingly, marketing expenses as a percentage of revenue decreased to 6% from 7% compared to the prior year.

Amortization expenses decreased to \$4.1 million for the year ended December 31, 2004 from \$6.7 million for the year ended December 31, 2003. This decrease was largely due to the reduction in intangible assets (Practice Management Agreements) resulting from the deconsolidation of LECC.

Research and development expenses decreased to \$0.8 million for the year ended December 31, 2004 from \$1.6 million for the year ended December 31, 2003. For the year ended December 31, 2004 and 2003, the Company incurred research and development expenses of \$1.2 million and \$1.6 million, respectively, relating to investments made to fund research and development efforts by OccuLogix to achieve FDA approval for medical treatments related to dry age-related macular degeneration. Since the technology is in the development stage and has not received FDA approval, the Company accounted for this investment as a research and development arrangement whereby investments were expensed as amounts are expended by OccuLogix. For the year ended December 31, 2004, the \$1.2 million research and development expense related to OccuLogix was offset by a \$0.4 million reimbursement of an unrelated research and development investment that was previously expensed.

During the year ended December 31, 2004, the Company fully reversed a reserve of \$1.2 million related to a long-term receivable due to a consistent payment history and continually improving financial strength of the debtor. In the prior year, the Company had initially reduced the reserve by \$0.7 million due to a similar valuation analysis and wrote down the value of unrelated investments by \$0.5 million due to other than temporary declines in value.

During the year ended December 31, 2004, the Company recorded a total charge of \$2.8 million consisting of a \$2.6 million charge for severance payments to two officers under the terms of employment contracts and a \$0.2 million charge for ongoing lease payment obligations at closed centers. Of the \$0.2 million charge that related to closed centers, \$13,000 related to a center closing in 2004 while the remaining balance related to adjustments to accruals for centers closed in previous years. The Company had recorded \$2.0 million of restructuring charges during the year ended December 31, 2003 primarily relating to the closing of six unprofitable centers. Cash requirements attributable to restructuring costs will be financed through the Company's cash and cash equivalents on hand. The following table details restructuring charges recorded during the year ended December 31, 2004:

	<u>RESTRUCTURING CHARGES</u>	<u>CASH PAYMENTS</u>	<u>ACCRUAL BALANCE AS OF DECEMBER 31, 2004</u>
Severance	\$ 2,557	\$ (1,057)	\$ 1,500
Lease commitments, net of sub-lease income	<u>13</u>	<u>--</u>	<u>13</u>
Total restructuring charges.....	<u>\$ 2,570</u>	<u>\$ (1,057)</u>	<u>\$ 1,513</u>

Other income and expense of \$26.4 million for the year ended December 31, 2004 primarily resulted from a \$25.8 million gain on the sale of 2.3 million shares of OccuLogix, Inc.'s common stock. During the year ended December 31, 2003, the Company recorded \$0.2 million of other income related to additional proceeds received from the settlement of an antitrust lawsuit in 2002.

Interest expense, net decreased to \$0.7 million for the year ended December 31, 2004 from \$1.4 million for the year ended December 31, 2003. This decrease was a result of less interest expense due to declining debt and lease obligations coupled with more interest income related to rising cash balances.

Minority interest expense increased to \$7.0 million for the year ended December 31, 2004 from \$4.7 million for the year ended December 31, 2003. This \$2.3 million increase was a result of higher profits reported by the Company's subsidiaries in which the Company has a shared interest with minority partners.

Earnings from equity investments of \$2.1 million for the year ended December 31, 2004 resulted primarily from \$1.3 million of earnings related to the Company's minority ownership investment in LECC and \$0.7 million of earnings related to the Company's minority ownership investments in two separate secondary care service providers.

Income tax expense increased to \$0.6 million for the year ended December 31, 2004 from \$0.5 million for the year ended December 31, 2003. The \$0.6 million tax expense primarily consisted of state taxes for certain states where the Company expects to pay income taxes. The current year federal income tax expense attributable to the Company and subsidiaries was offset by the partial reversal of valuation allowances as the Company utilized a portion of its net operating loss carryforwards in 2004.

Net income for the year ended December 31, 2004 was \$43.7 million, or \$0.61 per share, compared to a net loss of \$9.4 million, or \$0.15 per share, for the year ended December 31, 2003. The significant improvement in net income primarily resulted from significant growth in both the refractive and other healthcare services businesses and a gain on the sale of OccuLogix, Inc.'s common stock.

TWELVE MONTHS ENDED DECEMBER 31, 2003 COMPARED TO THE TWELVE MONTHS ENDED DECEMBER 31, 2002

Results from the LaserVision business are only included for operations subsequent to the date of acquisition in May 2002. This merger significantly impacted the variances in results between the twelve months ended December 31, 2003 and 2002. Due to the completed integration of TLC*Vision* and LaserVision, it is no longer practical to distinguish revenues or cost of revenues between the two companies. Information for the twelve months ended December 31, 2002 was not audited due to the change in fiscal years.

Total revenues for the twelve months ended December 31, 2003 were \$195.7 million, an increase of \$31.1 million, or 19% increase over revenues of \$164.6 million for the twelve months ended December 31, 2002. Approximately 75% of total revenues for the twelve months ended December 31, 2003 were derived from refractive services compared to 80% during the twelve months ended December 31, 2002.

Revenues from the refractive segment for the twelve months ended December 31, 2003 were \$146.2 million, an increase of \$15.3 million or 12% over revenues of \$130.9 million from refractive activities for the twelve months ended December 31, 2002. This increase was largely due to a full year of LaserVision revenues in 2003 offset by the closure of owned, managed and access sites that were underperforming.

Revenues from centers for the twelve months ended December 31, 2003 were \$110.1 million, an increase of \$4.6 million or 4% from \$105.5 million from the prior year period. This increase resulted from increased volume largely due to the LaserVision acquisition and higher revenues associated with Custom LASIK, offset by lost revenue due to the closure of underperforming centers that were operational during part of the twelve months ended December 31, 2002.

Revenues from access services for the twelve months ended December 31, 2003 were \$36.1 million, an increase of \$10.7 million from the revenues of \$25.4 million for the twelve months ended December 31, 2002. Because laser access is a product offering of LaserVision only, the Company reported no access revenue for the existing TLC*Vision* business prior to the merger in May 2002. Therefore, the increase in revenue was substantially impacted by prior year revenue only including revenue subsequent to the date of acquisition in May 2002.

Approximately 176,100 refractive procedures were performed in the twelve months ended December 31, 2003, compared to approximately 140,600 procedures for the twelve months ended December 31, 2002. The increase in procedure volume of 35,500 or 25% was largely due to a full year of LaserVision procedures in 2003 and growth in centers offset by procedures lost due to underperforming centers that were closed since the LaserVision acquisition in May 2002.

The cost of refractive revenues for the twelve months ended December 31, 2003 was \$111.5 million, an increase of \$9.3 million, or 9%, over the cost of refractive revenues of \$102.2 million for the twelve months ended December 31, 2002. This increase was related to the increase in procedure volume and the higher costs associated with Custom LASIK.

The cost of revenues from centers for the twelve months ended December 31, 2003 was \$86.0 million, an increase of \$3.4 million or 4% from the cost of revenues of \$82.6 million from the twelve months ended December 30, 2002. This increase was related to rising costs, specifically due to higher royalty fees and doctor compensation resulting from the introduction of Custom LASIK.

The cost of revenues from access services for the twelve months ended December 31, 2003 was \$25.4 million, up \$7.3 million from \$18.1 million subsequent to the LaserVision merger in May 2002. Access services are a product offering of LaserVision only and therefore were significantly impacted by the inclusion of LaserVision only from the date of acquisition in May 2002.

During the twelve months ended December 31, 2002, the Company recorded \$1.5 million in charges to reflect the reduction in the value of certain capital assets. No adjustment was recorded in the twelve months ended December 31, 2003.

Fluctuations in cost of revenue were consistent with significant variable cost changes to doctors' compensation, royalty fees on laser usage and personnel and medical supplies that are highly dependent on procedural volume. The cost of revenues for refractive centers include fixed cost components for infrastructure of personnel, facilities and minimum equipment usage fees which can cause cost of revenues to increase at a slower rate than the percentage increase in the associated revenues. In addition, most refractive equipment was depreciated using a 25% declining balance method in 2003 compared to a 20% declining balance method through May 2002. If the Company had used a 25% declining method in the prior year, then the depreciation expense for the prior year would have been approximately \$0.8 million higher.

Revenues from other healthcare services for the twelve months ended December 31, 2003 were \$49.5 million, an increase of \$15.8 million, or 47%, from revenues of \$33.7 million for the twelve months ended December 31, 2002. Approximately 25% of the total revenues for the twelve months ended December 31, 2003 were derived from other healthcare services compared to 20% during the twelve months ended December 31, 2002. The increase in revenue reflected the Company's stated diversification strategy to increase non-refractive eye care services. Revenue increased due to two acquisitions in fiscal 2003, incremental revenue resulting from a full year of business gained in conjunction with the LaserVision acquisition as the prior year period only included LaserVision revenue since the date of acquisition in May 2002, and growth in existing businesses.

The cost of revenues from other healthcare services for the twelve months ended December 31, 2003 was \$31.8 million, an increase of \$8.8 million or 38% from cost of revenues of \$23.0 million for the twelve months ended December 31, 2002. The increase in cost of revenues was primarily related to incremental costs incurred resulting from the increased revenue of the other healthcare service business.

General and administrative expenses decreased to \$31.2 million for the twelve months ended December 31, 2003 from \$38.2 million for the twelve months ended December 31, 2002. The \$7.0 million or 18% decrease primarily was a result of the Company's cost reduction initiatives and lower legal and accounting fees. In addition, \$0.9 million was recorded as a reduction in expense related to the partial reversal of an accrual related to a settlement of a lawsuit during fiscal 2003.

Because the Company has reduced its overhead cost structure, the combined infrastructure cost of TLC*Vision* and LaserVision was lower than the overhead cost of TLC prior to the LaserVision acquisition despite a 25% increase in refractive procedure volume during the twelve months ended December 31, 2003. As a result, general and administrative expenses as a percentage of revenue decreased to 16% from 24% compared to the prior year period.

Marketing expenses decreased to \$14.1 million for the twelve months ended December 31, 2003 from \$14.4 million for the twelve months ended December 31, 2002. Marketing expenses decreased by \$0.3 million, or 2%, despite a full year of marketing expenses related to LaserVision, whereas the prior year period only included expenses subsequent to the date of acquisition in May 2002. Marketing expenses as a percentage of revenue decreased to 7% during fiscal 2003 compared to 9% in the prior year period.

Amortization expenses decreased to \$6.7 million for the twelve months ended December 31, 2003 from \$8.4 million for the twelve months ended December 31, 2002. The decrease in amortization expense of \$1.7 million was largely a result of the significant impairment charges in 2002 that reduced the fair value of practice management agreements and the related ongoing amortization.

Research and development expenses of \$1.6 million for the twelve months ended December 31, 2003 decreased by \$2.4 million from \$4.0 million for the twelve months ended December 31, 2002. In conjunction with a partnership with Diamed Medizintechnik GmbH ("Diamed"), the Company elected to renew its investment commitment to research and development efforts by OccuLogix. As a result, the Company paid \$1.6 million to OccuLogix to further its efforts to achieve FDA approval for medical treatments related to dry age-related macular degeneration. Since the technology is in the development stage and has not received Food and Drug Administration approval, the Company accounted for this investment as a research and development arrangement whereby investments were expensed as amounts are expended by OccuLogix. During the twelve months ended December 31, 2002, the Company made payments of \$3.0 million to fund research by OccuLogix and paid \$1.0 million to Tracey Technologies for custom ablation-related research and development.

The Company's operating results for the twelve months ended December 31, 2002 included a non-cash pretax charge of \$103.9 million to reduce the carrying value of goodwill and other intangible assets. The Company recorded a \$72.9 million charge to reduce the carrying value of goodwill for which the carrying value exceeded the fair value, including \$67.7 million related to the impairment of goodwill associated with the acquisition of LaserVision and \$5.2 million for the impairment of goodwill from prior acquisitions.

Intangible assets whose useful lives are not indefinite are amortized on a straight-line basis over the term of the applicable agreement to a maximum of 15 years. Current amortization periods range from five to 15 years. In establishing these long-term contractual relationships with the Company, key surgeons in many cases have 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.

Statement of Financial Accounting Standard No. 144, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, requires long-lived assets included within the scope of the statement be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of those long-lived assets might not be recoverable - that is, information indicates that an impairment might exist. Given the significant decrease in the trading price of the Company's common stock during 2002, 2002 operating or cash flow losses combined with its history of operating or cash flow losses, the Company identified certain practice management agreements where the recoverability was impaired. As a result, the Company recorded an impairment charge of \$31.0 million during the twelve months ended December 31, 2002. No impairment charge related to practice management agreements was recorded during fiscal 2003.

During the twelve months ended December 31, 2003, the Company recorded a \$0.2 million reduction in expenses related to the valuation of investments and long-term notes receivable. The Company reduced a reserve by \$0.6 million related to a long-term receivable due to a consistent payment history and continually improving financial strength of the debtor and wrote down its investment in a marketable equity security by \$0.4 million during the twelve months ended December 31, 2003 due to an other than temporary decline in its value. The Company also recorded a \$7.1 million expense related to adjustments to the value of investments and long-term receivables in the twelve months ended December 31, 2002 using similar valuation analyses.

The Company recorded \$2.0 million of restructuring charges during the twelve months ended December 31, 2003, primarily relating to the closing of six unprofitable centers. These charges consisted of total charges of \$2.3 million offset by the reversal into income of \$0.3 million of restructuring charges related to prior year accruals that were no longer needed as of December 31, 2003. Cash requirements attributable to restructuring costs was financed through the Company's cash and cash equivalents on hand. A total of \$0.5 million of this provision related to non-cash costs of writing down fixed assets, \$0.6 million related to non-cash costs of writing off prepaid expenses, investments and laser commitments, \$0.4 million related to severance, and \$0.5 million related to the net future cash costs for lease commitments and costs to sublet available space offset by sub-lease income. The lease costs are being paid out over the remaining term of the lease.

The Company recorded a restructuring charge of \$11.2 million during the twelve months ended December 31, 2002, primarily relating to costs associated with closing several unprofitable centers and severance costs incurred in conjunction with the Company's cost reduction initiatives plan.

The following table details restructuring charges recorded during the year ended December 31, 2003:

	RESTRUCTURING CHARGES	CASH PAYMENTS	NON-CASH REDUCTIONS AND ADJUSTMENTS	ACCRUAL BALANCE AS OF DECEMBER 31, 2003	CASH PAYMENTS	NON-CASH REDUCTIONS AND ADJUSTMENTS	ACCRUAL BALANCE AS OF DECEMBER 31, 2004
Severance	\$ 360	\$ (194)	\$ --	\$ 166	\$ (166)	\$ --	\$ --
Lease commitments, net of sublease income	864	(256)	--	608	(525)	(18)	65
Write-down of fixed assets	370	--	(370)	--	--	--	--
Prepaid expense and investment charges	507	(200)	(307)	--	--	--	--
Laser commitments	180	(180)	--	--	--	--	--
Total restructuring charges	<u>\$ 2,281</u>	<u>\$ (830)</u>	<u>\$ (677)</u>	<u>\$ 774</u>	<u>\$ (691)</u>	<u>\$ (18)</u>	<u>\$ 65</u>

Other income and expense of \$0.2 million for the twelve months ended December 31, 2003 resulted from additional proceeds from the settlement of an antitrust lawsuit in 2002. During the twelve months ended December 31, 2002, the Company recorded \$8.0 million in other revenue, primarily consisting of \$6.8 million of one-time income from the settlement of an antitrust lawsuit plus \$0.8 million of income from the termination of the agreement to purchase Aspen Health Care from the Company.

Interest expense, net of \$1.4 million for the twelve months ended December 31, 2003 reflected interest expense from debt and lease obligations partially offset by interest income from the Company's cash position. During fiscal 2003, the Company incurred additional interest expense related to new loans obtained to fund acquisitions and loans associated with the purchase of a significant amount of equipment related both to the introduction of Custom LASIK in the United States and the expansion of the MSS cataract business. In addition, interest income decreased as the Company reduced cash and cash equivalent balances during the twelve months

ended December 31, 2003 compared to the corresponding period in the prior year and interest rates declined. Accordingly, interest expense, net increased \$0.6 million in 2003 from \$0.8 million in the prior year.

Minority interest expense increased to \$4.7 million for the twelve months ended December 31, 2003 from \$1.7 million for the twelve months ended December 31, 2002. This \$3.0 million increase represented greater profits reported by the Company's subsidiaries in which the Company has a shared interest with minority partners, a greater percentage of minority interest payable to partners related to the divestiture of Vision Source in 2002, and new minority interest related to the purchase of an ambulatory surgery center during 2003.

Income tax expense of \$0.5 million for the twelve-month period ended December 31, 2003 decreased \$1.1 million from \$1.6 million for the twelve months ended December 31, 2002 due to the favorable change in the taxable status of two subsidiaries. The \$0.5 million tax expense consisted of federal and state taxes for certain of the Company's subsidiaries where consolidated federal and state tax returns cannot be filed.

Net loss for the twelve months ended December 31, 2003 was \$9.4 million, or \$0.15 per share, compared to a loss of \$144.7 million or \$2.68 per share, for the twelve months ended December 31, 2002. The significant improvement in net loss resulted from the contribution of the full year of the LaserVision business in 2003, growth in both the refractive and other healthcare services businesses, a significant reduction in general and administrative charges and a \$113.0 million reduction in impairment of intangible assets and restructuring charges in fiscal 2003 from the prior year.

SEVEN MONTHS ENDED DECEMBER 31, 2002 COMPARED TO THE SEVEN MONTHS ENDED DECEMBER 31, 2001

As used herein, "existing *TLCVision*" refers to *TLCVision* locations in existence prior to the merger with LaserVision in May 2002. Information for the seven months ended December 31, 2001 was not audited due the change in fiscal years.

Revenues for the seven months ended December 31, 2002 were \$100.2 million, a \$29.9 million increase over revenues of \$70.3 million for the seven months ended December 31, 2001. The contribution of LaserVision during the seven-month period ended December 31, 2002 added \$44.9 million of revenues while the existing *TLCVision* revenue decreased by \$15.2 million or 22%. Approximately 76% of total revenues for the seven months ended December 2002 were derived from refractive services compared to 87% during the seven months ended December 31, 2001.

Revenues from the refractive segment for the seven months ended December 31, 2002 were \$76.3 million, an increase of \$15.0 million or 24%, over revenues of \$61.3 million from refractive activities for the seven months ended December 31, 2001. LaserVision added \$30.7 million of refractive revenues, while the existing *TLCVision* refractive revenue decreased by \$15.7 million, or 26%.

Revenues from centers for the seven months ended December 31, 2002 were \$54.8 million, a decrease of \$6.5 million, or 11%, from revenues of \$61.3 million for the seven months ended December 31, 2001. LaserVision accounted for \$9.2 million of such revenues, while the existing *TLCVision* revenue decreased by \$15.7 million, or 26%.

Revenues from access services for the seven months ended December 31, 2002 were \$21.5 million. Because access revenues are a product offering of LaserVision only, the Company did not report any associated access revenue in the seven months ended December 31, 2001 for the existing *TLCVision* business.

Approximately 92,900 refractive procedures were performed for the seven months ended December 31, 2002, compared to approximately 47,400 procedures for the seven months ended December 31, 2001. LaserVision accounted for 53,400 procedures while the *TLCVision* procedures decreased by 7,900 to 39,500. The Company believes that the reduction in procedure volume was indicative of overall conditions in the laser vision correction industry. The laser vision correction industry experienced uncertainty resulting from a number of issues. Being an elective procedure, laser vision correction volumes were depressed by economic and stock market conditions, rising unemployment and the uncertainty associated with the war on terrorism experienced in North America which reflected in the consumer confidence index. Also contributing to the decline was a wide range in consumer prices for laser vision correction procedures, the bankruptcies of a number of deep discount laser vision correction companies, safety and effectiveness concerns arising from the lack of long-term follow-up data and negative news stories focusing on patients with unfavorable outcomes from procedures performed at centers competing with the Company.

The cost of refractive revenues for the seven months ended December 31, 2002 was \$64.6 million, an increase of \$17.0 million, or 36%, over the cost of refractive revenues of \$47.6 million for the seven months ended December 31, 2001. LaserVision cost of revenue for 2002 was \$24.0 million while the existing *TLCVision*'s cost of revenue decreased by \$7.0 million, or 15%.

The cost of revenues from centers for the seven months ended December 31, 2002 was \$49.2 million, an increase of \$1.6 million, or 3%, from the cost of revenues of \$47.6 million from the seven months ended December 31, 2001. LaserVision cost of revenue for 2002 was \$8.6 million while the existing *TLCVision* cost of revenue decreased \$7.0 million, or 15%.

The cost of revenues from access services for the seven months ended December 31, 2002 was \$15.4 million. Access services are a product offering of LaserVision only, therefore, there was no associated access cost of revenue in the seven months ended December 31, 2001 from the existing *TLCVision* business.

Reductions in cost of revenue were consistent with reduced doctors' compensation resulting from lower procedure volumes, reductions in royalty fees on laser usage and reduced personnel costs. The cost of revenues for refractive centers include a fixed cost component for infrastructure of personnel, facilities and minimum equipment usage fees which has resulted in cost of revenues decreasing at a slower rate than the decrease in the associated revenues.

Revenues from other healthcare services for the seven months ended December 31, 2002, were \$23.9 million, an increase of \$14.9 million from revenues of \$9.0 million for the seven months ended December 31, 2001. LaserVision accounted for \$14.2 million of the increase while the existing *TLCVision* revenue increased by \$0.7 million, or 6%. Approximately 24% of the total revenues for the seven months ended December 31, 2002 were derived from other healthcare services compared to 13% during the seven months ended December 31, 2001.

The cost of revenues from other healthcare services for the seven months ended December 31, 2002 was \$16.2 million, an increase of \$11.4 million, from cost of revenues of \$4.8 million for the seven months ended December 31, 2001. LaserVision accounted for \$9.2 million of the increase while the existing *TLCVision* cost of revenues increased by \$2.2 million.

General and administrative expenses increased to \$25.6 million for the seven months ended December 31, 2002 from \$22.8 million for the seven months ended December 31, 2001. The seven months ended December 31, 2002 included a \$1.3 million charge for potential medical malpractice claims. Although the Company has reduced overhead and infrastructure cost as part of the Company's cost reduction initiatives, the combined infrastructure cost of *TLCVision* and LaserVision was higher than *TLCVision* incurred by itself during the seven months ended December 31, 2001.

Marketing expenses decreased to \$8.3 million for the seven months ended December 31, 2002 from \$9.2 million for the seven months ended December 31, 2001. This reflected decreased spending on marketing programs identified in conjunction with the Company's cost-reduction initiatives.

Amortization expenses decreased to \$4.1 million for the seven months ended December 31, 2002 from \$6.0 million for the seven months ended December 31, 2001. The decrease in amortization expense was largely a result of the significant impairment charge in May 2002, which reduced the fair value of PMA's and the related ongoing amortization.

Research and development expenses reflected \$2.0 million invested in OccuLogix. Since the technology was in the development stage and was not available commercially and had not received FDA approval, the Company accounted for this investment as a research and development arrangement whereby investments were expensed as OccuLogix expends amounts.

The Company determined its goodwill was impaired and recorded a charge of \$22.1 million for the seven months ended December 31, 2002. This charge was comprised of \$21.8 million that relates to the goodwill attributable to reporting units acquired in the LaserVision acquisition and \$0.3 million relating to goodwill attributable to reporting units acquired in prior years. In addition, the Company's adoption of SFAS 142 resulted in a transitional impairment loss of \$15.2 million, which was recorded as a cumulative effect of a change in accounting principle during the seven months ended December 31, 2001.

In December 2002, *TLCVision* wrote down its investment in a privately held company by \$2.1 million. That company, which develops an implantable product that corrects and maintains vision is actively seeking additional funding at this time and has received a term sheet from a venture capital firm that indicates significant dilution to the existing shareholders. *TLCVision* wrote down the investment to \$0.5 million to reflect the estimated market value of the investment.

During the transitional period ended December 31, 2002, the Company recorded a \$4.7 million restructuring charge for the closure of 13 centers and the elimination of 36 full-time equivalent positions primarily at the Company's Toronto headquarters. The total restructuring expense for the transitional period was \$4.2 million which consisted of the \$4.7 million offset by the reversal into income of \$0.5 million of restructuring charges related to prior year accruals that were no longer needed as of December 31, 2002. All restructuring costs will be financed through the Company's cash and cash equivalents. A total of \$2.3 million of this provision related to non-cash costs of writing down fixed assets, \$1.0 million related to severance, and \$1.0 million related to the net future cash costs

for lease commitments and costs to sublet available space offset by sub-lease income. The lease costs will be paid out over the remaining term of the lease.

The following table details restructuring charges recorded during the transitional period ended December 31, 2002:

	RESTRUCTURING CHARGES	CASH PAYMENTS	NON-CASH REDUCTIONS AND ADJUSTMENTS	ACCRUAL BALANCE AT DECEMBER 31, 2003	CASH PAYMENTS	NON-CASH REDUCTIONS AND ADJUSTMENTS	ACCRUAL BALANCE AT DECEMBER 31 2004
Severance	\$ 1,120	\$ (1,047)	\$ (73)	\$ --	\$ --	\$ --	\$ --
Lease commitments, net of sublease income	978	(420)	(221)	337	(240)	166	263
Write-down of fixed assets	2,266	--	(2,266)	--	--	--	--
Sale of center to third party	342	(7)	(335)	--	--	--	--
Total restructuring charges	<u>\$ 4,706</u>	<u>\$ (1,474)</u>	<u>\$ (2,895)</u>	<u>\$ 337</u>	<u>\$ (240)</u>	<u>\$ 166</u>	<u>\$ 263</u>

Other income and expense for the seven months ended December 31, 2002 of \$8.0 million primarily consisted of \$6.8 million of income from the settlement of an antitrust lawsuit. In August 2002, LaserVision received \$8.0 million from its portion of the settlement and TLCVision received \$7.1 million from its portion of the settlement. The \$8.0 million relating to the activities of LaserVision represented a contingent asset acquired by the Company and was included in the purchase price allocation at May 15, 2002 as an other asset. The \$7.1 million settlement received related to TLCVision has been recorded as a gain of \$6.8 million (net of \$0.3 million for its obligations to be paid to the minority interests) in other income and expense for the period.

During the transitional period, the Company recorded \$0.9 million of income from the termination of the Surgicare agreement to purchase Aspen Healthcare from the Company. On May 16, 2002, the Company agreed to sell the capital stock of its Aspen Healthcare ("Aspen") subsidiary to SurgiCare Inc. ("SurgiCare") for a purchase price of \$5.0 million in cash and warrants for 103,957 shares of common stock of SurgiCare with an exercise price of \$2.24 per share. On June 14, 2002, the purchase agreement for the transaction was amended due to the failure of Surgicare to meet its obligations under the agreement. The amendment established a new closing date of September 14, 2002 and required SurgiCare to issue 38,000 shares of SurgiCare common stock and to pay \$0.8 million to the Company, prior to closing, all of which was non-refundable. SurgiCare failed to perform under the purchase agreement, as amended, and as a result, the purchase agreement was terminated and the Company recorded the gain in other income and expense for the period.

Interest (expense) income, net reflects interest revenue from the Company's cash position offset by interest expense from debt and lease obligations. An increase to debt in the second quarter of fiscal 2002 from the corporate headquarters sale-leaseback arrangement resulted in additional increases to interest costs. Interest revenues decreased since the Company reduced cash and cash equivalent balances during the seven months ended December 31, 2002 compared to the corresponding period in the prior year. In addition interest yields on cash balances were lower, offset by a gain in foreign currency translation to U.S. dollars related to the Company's Canadian operations.

Income tax expense increased to \$0.9 million for the seven-month period ended December 31, 2002 from \$0.5 million for the seven months ended December 31, 2001. The \$0.9 million tax expense consisted of state taxes of \$0.6 million for certain of the Company's subsidiaries where a consolidated state tax return cannot be filed and \$0.3 million of foreign taxes for one of the Company's foreign subsidiaries.

The loss for the seven months ended December 31, 2002 was \$43.3 million or \$0.68 per share compared to a loss of \$45.3 million or \$1.19 per share for the seven months ended December 31, 2001. This decreased loss primarily reflected the positive impact of the antitrust settlement and cost-cutting initiatives partially offset by the reduction in refractive procedures and revenues. As a result of the LaserVision acquisition in May 2002, there were more common shares outstanding during the seven months ended December 31, 2002 than in the prior year period.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended December 31, 2004, the Company continued to focus its activities primarily on increasing procedure volumes at its centers, reducing operating costs and expanding its other healthcare businesses through internal growth and acquisitions. Cash and cash equivalents, short-term investments and restricted cash were \$145.4 million at December 31, 2004 compared to \$31.7 million at December 31, 2003. Working capital at December 31, 2004 increased to \$131.2 million from \$10.9 million at December 31, 2003.

The Company's principal cash requirements have included normal operating expenses, debt repayment, distributions to minority partners, capital expenditures, purchases of short-term investments, investment in OccuLogix and the purchases of two ambulatory surgery centers. Normal operating expenses include doctors' compensation, procedure royalty fees, procedure medical supply expenses, travel and entertainment, professional fees, insurance, rent, equipment maintenance, wages, utilities and marketing.

During the year ended December 31, 2004, the Company invested \$5.2 million in fixed assets and received vendor financing for \$2.6 million of fixed assets, primarily equipment upgrades for Custom LASIK and new equipment related to the growth of the cataract business.

The Company does not expect to purchase additional excimer lasers during the next 12 to 18 months, however, existing lasers and flap-making technology may need to be upgraded. The Company has access to vendor financing at fixed interest rates or on a per procedure fee basis and expects to continue to have access to these financing options for at least the next 12 months.

OccuLogix, Inc. plans to use approximately \$17.5 million to \$18.8 million of the proceeds from its IPO to build its organizational structure to prepare for commercialization in the United States. OccuLogix, Inc. also plans to use approximately \$5.3 million to \$6.6 million to complete clinical trials and approximately \$9.5 million to \$10.5 million to purchase and accumulate an inventory of components of the RHEO™ System to facilitate the rapid commercialization of the RHEO™ System in the United States if and when it receives FDA approval.

As of December 31, 2004, the Company had contractual obligations relating to long-term debt, capital lease obligations, operating leases for rental of office space and equipment, marketing contracts, royalty obligations, filter purchase obligations and the purchase of additional ownership interest in an ASC requiring future minimum payments aggregating to \$61.4 million. Future minimum payments over the next five years are as follows:

<u>CONTRACTUAL OBLIGATIONS</u>	<u>TOTAL</u>	<u>PAYMENTS DUE BY PERIOD</u>			
		<u>LESS THAN 1 YEAR</u>	<u>1-2 YEARS</u>	<u>3-4 YEARS</u>	<u>5 OR MORE YEARS</u>
Long-term debt	\$ 18,248	\$ 7,867	\$ 3,334	\$ 2,377	\$ 4,670
Capital lease obligations	2,460	1,490	955	15	--
Operating leases	22,471	8,141	9,855	3,751	724
Marketing contracts	2,391	2,204	187	--	--
Royalty obligations	1,250	100	200	200	750
Filter purchase obligations	13,253	2,565	10,688	--	--
Purchase of additional ownership interest	1,350	675	675	--	--
Total	<u>\$ 61,423</u>	<u>\$ 23,042</u>	<u>\$ 25,894</u>	<u>\$ 6,343</u>	<u>\$ 6,144</u>

On January 1, 2004, the Company settled a lawsuit brought by Thomas S. Tooma, M.D. and TST Acquisitions, LLC ("TST") in October 2002. Under the terms of the settlement, the Company sold approximately 24% of Laser Eye Care of California ("LECC") and 30% of its California access business to TST for \$2.3 million. The Company continues to hold a 30% ownership in LECC and a 70% ownership in the California access business. The Company recorded a \$1.1 million gain on the sale of these business interests which is included in "general and administrative" in the accompanying statements of operations. Effective January 1, 2004, the Company deconsolidated LECC and began reporting its interest in LECC under the equity method of accounting because it no longer owns a controlling interest in the entity.

On March 1, 2004, OR Partners entered into a purchase agreement to acquire 70% of an ambulatory surgery center in Texas, which provides access to surgical and diagnostic equipment to perform cataract surgery in hospitals and ambulatory surgery centers. The Company paid \$3.8 million in cash and assumed debt of \$0.4 million. The purchase price allocation included \$4.1 million of goodwill. The results of operations have been included in the consolidated statements of operations of the Company since the acquisition date.

On August 1, 2004, OR Partners purchased an additional 5% ownership interest in its ASC in Mississippi for \$0.7 million of which substantially all was allocated to goodwill. The Company also has an obligation to purchase an additional 5% ownership interest per year for \$0.7 million in cash per year during each of the next two years.

On December 1, 2004, OR Partners entered into a purchase agreement to acquire 25% of an ASC in Texas. The Company paid \$4.5 million in cash and has reported its interest in the ASC under the equity method of accounting since the date of acquisition.

On December 24, 2004, the Company paid \$0.6 million to Omar Hakim, MD to purchase the minority interest of two laser centers which were 75% owned by the Company and to settle legal disputes.

During 2004, the Company received \$24.7 million in proceeds from the exercise of non-qualified stock options to purchase 4.2 million common shares.

In November 2003, the Company obtained a \$15 million line of credit from GE Healthcare Financial Services. This loan is secured by certain accounts receivable and cash accounts in wholly-owned subsidiaries and Aspen Healthcare and a general lien on most other U.S. assets. As of December 31, 2004, the Company did not have any borrowings drawn under the line of credit and had an available unused line of \$15 million.

The Company estimates that existing cash balances and short-term investments, together with funds expected to be generated from operations and credit facilities, will be sufficient to fund the Company's anticipated level of operations and expansion plans for the next 12 to 18 months.

At December 31, 2003, the Company reported \$2.1 million of exit liabilities primarily related to the closure of centers during 2002 and 2003. During the year ended December 31, 2004, the Company recorded an additional charge of \$2.8 million primarily related to severance payments to two officers under the terms of employment contracts, made cash payments of \$2.6 million and recorded \$0.5 million of non-cash adjustments, resulting in a \$2.8 million exit liability at December 31, 2004.

CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities was \$35.4 million for the year ended December 31, 2004. The cash flows provided by operating activities during the year ended December 31, 2004 were primarily due to net income of \$43.7 million plus non-cash items including depreciation and amortization of \$17.7 million, minority interest expense of \$7.0 million, the write-off of investments related to research and development arrangements of \$0.8 million, and the loss on sale of fixed assets of \$0.8 million. These cash flows were offset by an increase in net operating assets of \$5.0 million, a gain on sale of subsidiary stock of \$25.8 million, earnings from equity investments of \$2.1 million, and adjustment to the fair value of investments and long-term receivables of \$1.2 million and a gain on sale of interest in subsidiary of \$1.1 million. The increase in net operating assets consisted of a \$1.5 million increase in accounts receivable due primarily to higher revenues, a \$1.8 million increase in prepaid expenses and a \$1.7 million decrease in accounts payable and accrued liabilities.

CASH USED FOR INVESTING ACTIVITIES

Net cash used for investing activities was \$88.1 million for the year ended December 31, 2004. Cash used in investing during the year ended December 31, 2004 included \$111.1 million of purchases of short-term investments, \$10.1 million for business acquisitions, \$5.2 million for the acquisition of fixed assets and \$0.8 million for investments in research and development arrangements. These cash outflows were offset by \$25.8 million from TLC*Vision's* sale of OccuLogix, Inc.'s common shares, \$8.4 million in proceeds from short-term investments, \$2.5 million in cash distributions received from equity investments, \$0.7 million in net cash associated with the sale of a portion of the Company's interest in LECC and \$1.6 million from the sale of fixed assets. In 2005, the Company plans to continue to invest in other business acquisitions and invest in capital expenditures as necessary to further its business objectives. During the next 12 months, the Company expects to invest at least \$0.7 million to increase its ownership in an ambulatory surgery center.

CASH PROVIDED BY FINANCING ACTIVITIES

Net cash provided by financing activities was \$64.6 million for the year ended December 31, 2004. Net cash provided by financing activities during the year ended December 31, 2004 was primarily due to \$59.9 million of net proceeds received by OccuLogix in conjunction with its IPO, \$25.2 million in proceeds from the exercise of employee stock options and employee stock purchase plans and \$0.4 million related to the removal of restrictions on certain cash balances. These cash flows were offset by \$13.7 million for the repayment of certain notes payable and capitalized lease obligations and \$7.2 million distributed to minority interests resulting from profits at certain of the Company's business units. The Company anticipates that available financing through the additional exercise of stock options and the availability to draw upon the unused portion of the Company's \$15 million line of credit, if necessary, will be sufficient to fund additional financing needs in 2005.

NEW ACCOUNTING PRONOUNCEMENTS

For a discussion on recent pronouncements, see Note 2, "Summary of Significant Accounting Policies," in the accompanying audited consolidated financial statements and notes thereto set forth in Item 8 of this Report.

SUBSEQUENT EVENT

On March 1, 2005, the Company sold its interest in Aspen to National Surgical Centers, Inc.

QUARTERLY FINANCIAL DATA (UNAUDITED)

(Thousands of U.S. dollars
except per share amounts)

	THREE MONTHS ENDED MARCH 31,		THREE MONTHS ENDED JUNE 30,		THREE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED DECEMBER 31,	
	2004	2003 (1)	2004 (5)	2003 (2)	2004	2003 (3)	2004 (6)	2003 (4)
Revenues	\$ 65,175	\$ 53,590	\$ 64,661	\$ 47,532	\$ 56,644	\$ 46,014	\$ 55,715	\$ 48,544
Gross margin	21,713	16,405	22,307	12,465	17,609	11,465	14,880	12,040
Net income (loss)	8,052	1,070	6,239	(3,453)	3,322	(4,090)	26,095	(2,926)
Basic income (loss) per share	0.12	0.02	0.09	(0.05)	0.05	(0.06)	0.38	(0.04)
Diluted income (loss) per share	0.12	0.02	0.09	(0.05)	0.05	(0.06)	0.36	(0.04)

- (1) In the three months ended March 31, 2003, the selected financial data of the Company included an adjustment to the fair value of investments and long-term receivables of \$0.2 million
- (2) In the three months ended June 30, 2003, the selected financial data of the Company included:
 - (a) an adjustment to the fair value of investments and long-term receivables of \$0.7 million; and
 - (b) a restructuring, severance and other charge of \$1.7 million
- (3) In the three months ended September 30, 2003, the selected financial data of the Company included an adjustment to the fair value of investments and long-term receivables of \$0.2 million
- (4) In the three months ended December 31, 2003, the selected financial data of the Company included a restructuring, severance and other charge of \$0.3 million
- (5) In the three months ended June 30, 2004, the selected financial data of the Company included:
 - (a) an adjustment to the fair value of investments and long-term receivables of \$1.2 million; and
 - (b) a restructuring, severance and other charge of \$2.8 million
- (6) In the three months ended December 31, 2004, the selected financial data of the Company included a gain on sale of subsidiary stock of \$25.8 million

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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 interest rate 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of TLC Vision Corporation have been prepared by management in conformity with accounting principles generally accepted in the United States. The significant accounting policies have been set out in Note 2 to the financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements,

management is satisfied that these financial statements have been prepared within reasonable limits of materiality under United States generally accepted accounting principles.

During the year ended December 31, 2004, the Board of Directors had an Audit Committee consisting of four non-management directors. The committee met with management and the auditors to review any significant accounting, internal control and auditing matters and to review and finalize the annual financial statements of the Company along with the report of independent registered public accounting firm prior to the submission of the financial statements to the Board of Directors for final approval.

The financial information throughout the text of this annual report is consistent with the information presented in the financial statements.

The Company's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of TLC Vision Corporation

We have audited the accompanying consolidated balance sheets of TLC Vision Corporation as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, and stockholders' equity for each of the two years in the period ended December 31, 2004, the seven-month period ended December 31, 2002, and the year ended May 31, 2002. Our audits also included the financial statement schedule listed in the index at Item 15a. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TLC Vision Corporation at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2004, the seven-month period ended December 31, 2002, and the year ended May 31, 2002 in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, on January 1, 2004, the Company adopted the provisions of FASB Interpretation No. 46.

As discussed in Note 8 to the consolidated financial statements, on June 1, 2001, the Company changed its method of accounting for goodwill.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of TLC Vision Corporation's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 11, 2005, expressed an unqualified opinion thereon.

St. Louis, Missouri
March 11, 2005

/s/ ERNST & YOUNG LLP

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share amounts)

	YEAR ENDED DECEMBER 31, 2004	2003	SEVEN-MONTH PERIOD ENDED DECEMBER 31, 2002	YEAR ENDED MAY 31, 2002
Revenues:				
Refractive:				
Centers.....	\$ 136,730	\$ 110,052	\$ 54,793	\$ 112,909
Access	40,659	36,140	21,495	2,999
Other healthcare services	64,806	49,488	23,866	18,843
Total revenues (Note 18).....	<u>242,195</u>	<u>195,680</u>	<u>100,154</u>	<u>134,751</u>
Cost of revenues:				
Refractive:				
Centers.....	96,388	86,045	49,224	81,911
Access	28,863	25,424	15,356	1,826
Impairment of fixed assets (Note 10).....	--	--	--	2,553
Other healthcare services	40,435	31,836	16,245	11,499
Total cost of revenues	<u>165,686</u>	<u>143,305</u>	<u>80,825</u>	<u>97,789</u>
Gross margin	<u>76,509</u>	<u>52,375</u>	<u>19,329</u>	<u>36,962</u>
General and administrative	33,128	31,204	25,567	36,382
Marketing.....	13,385	14,094	8,321	15,296
Amortization of intangibles	4,098	6,685	4,074	10,227
Research and development (Note 7)	849	1,598	2,000	2,000
Impairment of goodwill and other intangible assets (Notes 8 and 9).....	--	--	22,138	81,720
Adjustment to the fair value of investments and long-term receivables (Note 7).....	(1,206)	(206)	2,095	26,082
Restructuring, severance and other charges (Note 20).....	2,755	2,040	4,227	8,750
	<u>53,009</u>	<u>55,415</u>	<u>68,422</u>	<u>180,457</u>
Operating income (loss)	23,500	(3,040)	(49,093)	(143,495)
Other income and (expense):				
Other income, net (Note 13).....	26,367	185	7,996	--
Interest expense and other, net	(663)	(1,364)	(243)	(761)
Minority interests	(6,953)	(4,672)	(1,152)	(635)
Earnings from equity investments.....	2,057	--	--	--
Income (loss) before income taxes and cumulative effect of accounting change.....	44,308	(8,891)	(42,492)	(144,891)
Income tax expense (Note 16)	(600)	(508)	(851)	(1,784)
Income (loss) before cumulative effect of accounting change	43,708	(9,399)	(43,343)	(146,675)
Cumulative effect of accounting change (Note 8)	--	--	--	(15,174)
Net income (loss)	<u>\$ 43,708</u>	<u>\$ (9,399)</u>	<u>\$ (43,343)</u>	<u>\$ (161,849)</u>
Earnings (loss) before cumulative effect of accounting change per share – basic.....	\$ 0.64	\$ (0.15)	\$ (0.68)	\$ (3.74)
Cumulative effect of accounting change per share – basic	--	--	--	(0.39)
Earnings (loss) per share - basic	<u>\$ 0.64</u>	<u>\$ (0.15)</u>	<u>\$ (0.68)</u>	<u>\$ (4.13)</u>
Weighted-average number of common shares outstanding - basic	<u>68,490</u>	<u>64,413</u>	<u>63,407</u>	<u>39,215</u>
Earnings (loss) before cumulative effect of accounting change per share – diluted.....	\$ 0.61	\$ (0.15)	\$ (0.68)	\$ (3.74)
Cumulative effect of accounting change per share – diluted	--	--	--	(0.39)
Earnings (loss) per share - diluted.....	<u>\$ 0.61</u>	<u>\$ (0.15)</u>	<u>\$ (0.68)</u>	<u>\$ (4.13)</u>
Weighted-average number of common shares outstanding - diluted	<u>71,088</u>	<u>64,413</u>	<u>63,407</u>	<u>39,215</u>

See notes to consolidated financial statements.

TLC VISION CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	DECEMBER 31,	
	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,435	\$ 21,580
Short-term investments.....	111,015	8,748
Accounts receivable (Note 6)	17,443	15,617
Prepaid expenses, inventory and other	<u>13,821</u>	<u>11,646</u>
Total current assets.....	175,714	57,591
Restricted cash (Note 5).....	932	1,376
Investments and other assets (Note 7).....	10,482	3,102
Goodwill (Note 8)	53,774	48,829
Other intangible assets (Note 9).....	18,140	22,959
Fixed assets (Note 10).....	<u>46,199</u>	<u>56,891</u>
Total assets.....	<u>\$305,241</u>	<u>\$190,748</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 8,716	\$ 10,627
Accrued liabilities (Note 11)	27,139	25,811
Current maturities of long-term debt (Note 12).....	<u>8,664</u>	<u>10,285</u>
Total current liabilities	44,519	46,723
Other long-term liabilities	2,722	2,607
Long-term debt, less current maturities (Note 12)	9,991	19,242
Minority interests	37,222	10,907
STOCKHOLDERS' EQUITY		
Common stock, no par value; unlimited number authorized.....	458,959	397,878
Option and warrant equity	2,872	8,143
Accumulated deficit	<u>(251,044)</u>	<u>(294,752)</u>
Total stockholders' equity	<u>210,787</u>	<u>111,269</u>
Total liabilities and stockholders' equity	<u>\$305,241</u>	<u>\$190,748</u>

See notes to consolidated financial statements.

Approved on behalf of the Board:

/s/ JAMES C. WACHTMAN
James C. Wachtman, Director

/s/ WARREN S. RUSTAND
Warren S. Rustand, Director

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	YEAR ENDED DECEMBER 31, 2004	YEAR ENDED DECEMBER 31, 2003	SEVEN-MONTH PERIOD ENDED DECEMBER 31, 2002	YEAR ENDED MAY 31, 2002
OPERATING ACTIVITIES				
Net income (loss).....	\$ 43,708	\$ (9,399)	\$ (43,343)	\$(161,849)
Adjustments to reconcile net income (loss) to net cash from operating activities:				
Depreciation and amortization.....	17,681	22,593	13,862	21,352
Write-off of investment in research and development arrangements...	849	1,598	2,000	2,000
Minority interests.....	6,953	4,672	1,152	107
Gain on sale of OccuLogix, Inc. stock.....	(25,792)	--	--	--
Gain on sale of interest in LECC.....	(1,143)	--	--	--
Earnings from equity investments.....	(2,057)	--	--	--
Loss (gain) on sales and disposals of fixed assets.....	839	(484)	1,770	1,136
Non-cash compensation expense.....	484	125	445	866
Impairment of goodwill and other intangibles assets.....	--	--	22,138	81,720
Adjustment to the fair value of investments and long-term receivables and impairment of fixed assets.....	(1,206)	(206)	2,095	28,635
Non-cash restructuring and other costs.....	--	677	2,266	2,503
Cumulative effect of accounting change.....	--	--	--	15,174
Changes in operating assets and liabilities, net of acquisitions and dispositions				
Accounts receivable.....	(1,449)	(489)	3,836	1,592
Prepaid expenses, inventory and other current assets.....	(1,801)	(964)	7,168	417
Accounts payable and accrued liabilities.....	(1,706)	(13,831)	(4,574)	6,321
Cash from operating activities.....	<u>35,360</u>	<u>4,292</u>	<u>8,815</u>	<u>(26)</u>
INVESTING ACTIVITIES				
Purchases of fixed assets.....	(5,191)	(4,433)	(3,668)	(2,297)
Proceeds from sale of fixed assets.....	1,565	578	751	89
Proceeds from divestitures of investments and subsidiaries, net of cash.....	729	221	259	777
Proceeds from sale of OccuLogix, Inc. stock, net.....	25,792	--	--	--
Distributions and loan payments received from equity investments.....	2,518	--	--	--
Investment in research and development arrangements.....	(849)	(1,598)	(2,000)	(2,000)
Acquisitions and investments, net of cash acquired.....	(10,067)	(8,015)	(9,695)	(5,424)
Cash acquired in Laser Vision Centers, Inc. acquisition.....	--	--	--	7,319
Proceeds from short-term investments.....	8,353	15,709	556	6,058
Purchases of short-term investments.....	(111,055)	(21,050)	(1,850)	--
Other.....	60	(229)	(32)	56
Cash from investing activities.....	<u>(88,145)</u>	<u>(18,817)</u>	<u>(15,679)</u>	<u>4,578</u>
FINANCING ACTIVITIES				
Restricted cash movement.....	444	2,599	1,013	(3,369)
Proceeds from debt financing.....	--	3,450	1,750	5,788
Principal payments of debt financing and capital leases.....	(13,669)	(8,018)	(5,140)	(7,098)
Distributions to minority interests.....	(7,216)	(4,901)	(1,532)	(3,092)
Purchase of treasury stock.....	--	--	(191)	--
Proceeds from issuance of OccuLogix, Inc. stock, net and cash acquired upon consolidation.....	59,850	--	--	--
Proceeds from issuance of common stock.....	25,231	8,744	121	306
Cash from financing activities.....	<u>64,640</u>	<u>1,874</u>	<u>(3,979)</u>	<u>(7,465)</u>
Net increase (decrease) in cash and cash equivalents during the period...	11,855	(12,651)	(10,843)	(2,913)
Cash and cash equivalents, beginning of period.....	21,580	34,231	45,074	47,987
Cash and cash equivalents, end of period.....	<u>\$ 33,435</u>	<u>\$ 21,580</u>	<u>\$ 34,231</u>	<u>\$ 45,074</u>

See notes to consolidated financial statements.

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	<u>COMMON STOCK</u>		<u>OPTION AND WARRANT EQUITY</u>	<u>TREASURY STOCK</u>		<u>ACCUMULATED DEFICIT</u>	<u>OTHER ACCUMULATED COMPREHENSIVE INCOME (LOSS)</u>	<u>TOTAL</u>
	<u>SHARES</u>	<u>AMOUNT</u>		<u>SHARES</u>	<u>AMOUNT</u>			
Balance May 31, 2001	38,031	\$ 276,277	\$ 532	--	\$ --	\$ (80,161)	\$ (9,542)	\$ 187,106
Shares issued on acquisition of LaserVision.....	26,617	111,058						111,058
Value determined for shares issued contingent on meeting earnings criteria		60						60
Options issued on acquisition			11,001					11,001
Treasury stock arising from acquisition.....				(583)	(2,432)			(2,432)
Exercise of stock options.....	10	26						26
Options issued on termination			222					222
Shares issued as part of the employee share purchase plan.....	85	280						280
Comprehensive loss:								
Net loss.....						(161,849)		(161,849)
Unrealized gains/losses on available-for-sale securities.....							9,542	9,542
Total comprehensive loss								(152,307)
Balance May 31, 2002.....	64,743	387,701	11,755	(583)	(2,432)	(242,010)	--	155,014
Purchase of treasury stock				(196)	(191)			(191)
Shares issued as part of the employee share purchase plan.....	46	111						111
Exercise of stock options.....	5	10						10
Options expired		720	(720)					--
Dilution gain on stock of subsidiary		227						227
Net loss and comprehensive loss						(43,343)		(43,343)
Balance December 31, 2002.....	64,794	388,769	11,035	(779)	(2,623)	(285,353)	--	111,828
Shares issued as part of the employee share purchase plan.....	56	223		196	191			414
Exercise of stock options.....	2,102	8,330						8,330
Options expired or exercised		2,892	(2,892)					--
Retirement of treasury stock.....	(583)	(2,432)		583	2,432			--
Shares issued as part of acquisition	100	96						96
Escrow shares returned to the Company.....	(713)							
Net loss and comprehensive loss						(9,399)		(9,399)
Balance December 31, 2003.....	65,756	397,878	8,143	0	--	(294,752)	--	111,269
Shares issued as part of the employee share purchase plan and 401(k) plan.....	131	532						532
Exercise of stock options.....	4,199	29,496	(4,797)					24,699
Options expired or forfeited.....		582	(582)					--
Variable stock option expense			108					108
Value of shares issued upon meeting certain earnings criteria		389						389
Issuance of subsidiary stock		30,082						30,082
Net income						43,708		43,708
Balance December 31, 2004.....	<u>70,086</u>	<u>\$ 458,959</u>	<u>\$ 2,872</u>	<u>0</u>	<u>\$ --</u>	<u>\$ (251,044)</u>	<u>\$ --</u>	<u>\$ 210,787</u>

See notes to consolidated financial statements.

TLC VISION CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular amounts in thousands, except per share amounts)

1. NATURE OF OPERATIONS

TLC Vision Corporation and its subsidiaries ("TLC*Vision*" or the "Company") is a diversified healthcare service company focused on working with eye doctors to help them provide high quality patient care primarily in the eye care segment. The majority of the Company's revenues come from refractive surgery, which involves using an excimer laser to treat common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company's business models include arrangements ranging from owning and operating fixed site centers to providing access to lasers through fixed site and mobile service relationships. In addition to refractive surgery, the Company is diversified into other eyecare businesses. Through its Midwest Surgical Services, Inc. ("MSS") subsidiary, the Company furnishes hospitals and independent surgeons with mobile or fixed site access to cataract surgery equipment and services. Through its OR Partners, Aspen Healthcare and Michigan subsidiaries, TLC*Vision* develops, manages and has equity participation in single-specialty eye care ambulatory surgery centers and multi-specialty ambulatory surgery centers. The Company also owns a 51% majority interest in Vision Source, which provides franchise opportunities to independent optometrists. In 2002, the Company formed a joint venture with OccuLogix, Inc. (formerly Vascular Sciences Corporation) to create OccuLogix, L.P., a partnership focused on the treatment of a specific eye disease known as dry age-related macular degeneration ("AMD"), via rheopheresis, a process for filtering blood.

On December 8, 2004, the Company exchanged its 50% interest in OccuLogix L.P. for a 50% interest in OccuLogix, Inc. In connection therewith, the Company converted its Series B preferred stock and convertible grid debentures into common shares of OccuLogix, Inc. After the exchange and conversion, the Company owned 65.8% of the outstanding common shares of OccuLogix, Inc. (OccuLogix). As a result of the exchange, OccuLogix L.P. became a wholly-owned subsidiary of OccuLogix. The Company accounted for the exchange at historical cost. Immediately after the exchange, OccuLogix completed an initial public offering (IPO) whereby OccuLogix sold 5,600,000 shares of its common stock at \$12 per share. Because the IPO price exceeded the per share carrying amount of the Company's investment in OccuLogix, the Company's equity ownership in OccuLogix after the IPO exceeded its equity ownership before the IPO by \$30.1 million. In accordance with Staff Accounting Bulletin No. 84, the Company accounted for the excess as an equity transaction. In connection with the IPO, TLC*Vision* sold 2,330,184 shares of its OccuLogix common stock at \$12 per share and recorded a gain of \$25.8 million. At December 31, 2004, the Company owns 21,475,064 shares or 51.4% of OccuLogix common stock. The Company has included the results of operations of OccuLogix in its consolidated statement of operations since December 8, 2004.

On May 15, 2002, the Company merged with Laser Vision Centers, Inc. ("LaserVision"), and the results of LaserVision's operations have been included in the consolidated financial statements since that date. LaserVision 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.

In 2002, the Company changed its fiscal year end from May 31 to December 31. References in the consolidated financial statements and notes to the consolidated financial statements to "fiscal 2004" and "fiscal 2003" shall mean the years ended December 31, 2004 and 2003, respectively, "transitional period 2002" shall mean the seven-month period ended December 31, 2002 and "fiscal 2002" shall mean the 12 months ended May 31, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents

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

Short-Term Investments

As of December 31, 2004, short-term investments include \$111.0 million of auction rate securities, which are available to support the Company's current operations. These investments are classified as available-for-sale securities and are recorded at fair value with unrealized gains or losses reported in other comprehensive income. Due to the short time period between the reset dates of the interest rates, there are no unrealized gains or losses associated with these securities. All of the auction rate securities have contractual maturities of more than five years. The Company previously classified auction rate securities as cash equivalents. In the current year, the Company reclassified \$8.0 million of auction rate securities reported as cash equivalents as of December 31, 2003 to short-term investments. As of December 31, 2003, short-term investments also included bank certificates of deposit, which are classified as held-to-maturity securities and carried at amortized cost.

Investments

The Company has certain investments in equity securities. Investments are accounted for using the equity method if the Company has significant influence, but not control, over an investee. All other equity investments, in which the Company does not have the ability to exercise significant influence, are accounted for under the cost method. Under the cost method of accounting, investments that do not have a quoted market price (non marketable equity securities) are carried at cost and are adjusted only for other than temporary declines in fair value and additional investment activity. For investments in public companies (marketable equity securities), the Company classifies its investments as available-for-sale and, accordingly, records these investments at fair value with unrealized gain and losses included in accumulated other comprehensive loss, unless a decline in fair value is determined to be other than temporary, in which case the unrealized loss is recognized in earnings.

Fixed Assets

Fixed assets are recorded at cost or the present value of future minimum lease payments for assets under capital lease. Major renewals or betterments are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is provided at rates intended to represent the assets productive lives as follows:

Buildings	- straight-line over 40 years
Computer equipment and software	- straight-line over three to four years
Furniture, fixtures and equipment	- 25% declining balance
Laser equipment	- 25% declining balance
Leasehold improvements	- straight-line over the initial term of the lease
Medical equipment	- 25% declining balance
Vehicles and other	- 25% declining balance

The Company's MSS subsidiary records depreciation on its equipment and vehicles (with a net book value of \$5.3 million at December 31, 2004) on a straight-line basis over the estimated useful lives (three to ten years) of the equipment.

On June 1, 2002, the Company changed its depreciation policy for furniture, fixtures and equipment, laser equipment and medical equipment to 25% declining balance from 20% declining balance. The Company believes this method better reflects the depreciation over the productive life of the asset. As this is a change in an accounting estimate it is reflected prospectively in the Company's financial statements.

Goodwill

The Company tests for impairment at least annually and more frequently if changes in circumstances or events indicate that it is more likely than not that impairment has occurred. The Company's annual impairment test date is November 30.

Other Intangible Assets

Other intangible assets consist primarily of practice management agreements ("PMAs") and deferred contract rights. PMAs 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 respective agreements. Deferred contract rights represent the value of contracts with affiliated doctors to provide basic access and service. PMAs and deferred contract rights are amortized using the straight-line method over the term of the related contract.

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of the asset group may not be recoverable.

Revenue Recognition

The Company recognizes refractive revenues when the procedure is performed. Revenue from centers represents the amount charged to patients for a laser vision correction procedure, net of discounts, contractual adjustments in certain regions and amounts collected as an agent of co-managing doctors. Revenue from access services represents the amount charged to the customer/surgeon for access to equipment and technical support based on use.

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

Approximately 27% of the Company's fiscal 2004 net revenue was from the Company's other healthcare services and principally included cataract equipment access and service fees on a per procedure basis, management fees from cataract and secondary care practices and network marketing and management services and fees for professional healthcare facility management. Revenues from other healthcare services are recognized as the service is rendered or procedure performed.

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" (FIN 46). In December 2003, the FASB modified FIN 46 to make certain technical corrections and address certain implementation issues that had arisen. FIN 46 provides a new framework for identifying VIEs and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. In general, a VIE is any legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant individual decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. FIN 46 requires a VIE to be consolidated if a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest.

FIN 46 was effective immediately for VIEs created after January 31, 2003. The provisions of FIN 46, as revised, were adopted as of January 1, 2004, for the Company's interests in all VIEs. Prior to the adoption of FIN 46, the Company did not consolidate physician practices that were managed but not owned by the Company. These managed physician practices were determined to be variable interest entities for which the Company is the primary beneficiary. As a result, the physician practices have been consolidated as of January 1, 2004. The adoption of FIN 46 resulted in an increase of total assets of \$154,000 as of December 31, 2004, and an increase in revenues and cost of revenues for the managed refractive centers, however the adoption had no material impact on gross margin or operating income and no impact on net income. Prior periods were not restated. The following pro forma amounts reflect the effect of FIN 46 assuming it was applied retroactively:

	YEAR ENDED DECEMBER 31,			SEVEN-MONTH PERIOD ENDED DECEMBER 31,		YEAR ENDED MAY 31,	
	2004	2003		2002		2002	
	Actual	Actual	Pro forma	Actual	Pro forma	Actual	Pro forma
Revenues:							
Refractive:							
Centers	\$136,730	\$110,052	\$126,498	\$ 54,793	\$ 63,262	\$112,909	\$131,286
Access	40,659	36,140	36,140	21,495	21,495	2,999	2,999
Other healthcare services	<u>64,806</u>	<u>49,488</u>	<u>49,488</u>	<u>23,866</u>	<u>23,866</u>	<u>18,843</u>	<u>18,843</u>
Total revenues	<u>242,195</u>	<u>195,680</u>	<u>212,126</u>	<u>100,154</u>	<u>108,623</u>	<u>134,751</u>	<u>153,128</u>
Cost of revenues:							
Refractive:							
Centers	96,388	86,045	102,331	49,224	57,645	81,911	100,043
Access	28,863	25,424	25,424	15,356	15,356	1,826	1,826
Impairment of fixed assets	--	--	--	--	--	2,553	2,553
Other healthcare services	<u>40,435</u>	<u>31,836</u>	<u>31,836</u>	<u>16,245</u>	<u>16,245</u>	<u>11,499</u>	<u>11,499</u>
Total cost of revenues	<u>165,686</u>	<u>143,305</u>	<u>159,591</u>	<u>80,825</u>	<u>89,246</u>	<u>97,789</u>	<u>115,921</u>
Gross margin	<u>\$ 76,509</u>	<u>\$ 52,375</u>	<u>\$ 52,535</u>	<u>\$ 19,329</u>	<u>\$ 19,377</u>	<u>\$ 36,962</u>	<u>\$ 37,207</u>
General and administrative	<u>\$ 33,128</u>	<u>\$ 31,204</u>	<u>\$ 31,364</u>	<u>\$ 25,567</u>	<u>\$ 25,615</u>	<u>\$ 36,382</u>	<u>\$ 36,627</u>
Net income (loss)	<u>\$ 43,708</u>	<u>\$ (9,399)</u>	<u>\$ (9,399)</u>	<u>\$(43,343)</u>	<u>\$(43,343)</u>	<u>\$(161,849)</u>	<u>\$(161,849)</u>
Basic earnings (loss) per share	<u>\$ 0.64</u>	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>	<u>\$ (0.68)</u>	<u>\$ (0.68)</u>	<u>\$ (4.13)</u>	<u>\$ (4.13)</u>
Diluted earnings (loss) per share	<u>\$ 0.61</u>	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>	<u>\$ (0.68)</u>	<u>\$ (0.68)</u>	<u>\$ (4.13)</u>	<u>\$ (4.13)</u>

As a result of the elimination of the distinction between owned and managed centers upon the adoption of FIN 46, their revenue and costs are no longer identified separately on the Company's consolidated statements of operations.

Cost of Revenues

Included in cost of revenues are the laser fees payable to laser manufacturers for royalties, use and maintenance of the lasers, variable expenses for consumables, financing costs, facility fees as well as center costs associated with personnel, facilities amortization and impairment of center assets.

Marketing

Marketing costs are expensed as incurred.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recorded based on the difference between the income tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the applicable enacted statutory tax rates. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Accounting for Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and its related interpretations. Accordingly, the Company records expense over the vesting period in an amount equal to the intrinsic value of the award on the grant date. The Company recorded \$0.5 million, \$0.1 million, \$0.4 million and \$0.9 million of compensation expense during fiscal 2004, fiscal 2003, the transitional period 2002 and fiscal 2002, respectively. The 2004 total compensation expense of \$0.5 million includes \$0.1 million of variable stock option expense for

options repriced in 2002. The following table illustrates the pro forma net income (loss) and earnings (loss) per share as if the fair value-based method as set forth under SFAS No. 123, "Accounting for Stock- Based Compensation," applied to all awards:

	YEAR ENDED DECEMBER 31,		SEVEN-MONTH PERIOD ENDED	YEAR ENDED
	2004	2003	DECEMBER 31, 2002	MAY 31, 2002
Net income (loss), as reported	\$ 43,708	\$ (9,399)	\$ (43,343)	\$ (161,849)
Add stock-based employee compensation cost included in reported net income (loss) .	108	--	--	--
Less stock-based employee compensation cost determined under fair value based method for all awards	(1,245)	(1,121)	(628)	(1,564)
Pro forma net income (loss).....	<u>\$ 42,571</u>	<u>\$ (10,520)</u>	<u>\$ (43,971)</u>	<u>\$ (163,413)</u>
Pro forma earnings (loss) per share - basic	<u>\$ 0.62</u>	<u>\$ (0.16)</u>	<u>\$ (0.69)</u>	<u>\$ (4.17)</u>
Pro forma earnings (loss) per share - diluted	<u>\$ 0.60</u>	<u>\$ (0.16)</u>	<u>\$ (0.69)</u>	<u>\$ (4.17)</u>

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation cost is amortized using the attribution method under FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option Award Plans."

Foreign Currency Exchange

The functional currency of the Company's Canadian operations is the U.S. dollar. The assets and liabilities of the Company's Canadian operations are maintained in Canadian dollars and remeasured 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 nonmonetary items. Revenue and expenses are remeasured 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 income (loss).

Earnings (Loss) Per Share

Basic earnings (loss) per share is determined by dividing net income (loss) available to common stockholders by the weighted average number of commons shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if options to issue common stock were exercised. In periods in which the inclusion of such instruments is anti-dilutive, the effect of such securities is not given consideration. Average shares outstanding during fiscal 2003 and the transitional period 2002 were reduced by 712,500 shares to exclude the effect of outstanding shares in escrow related to a previous LaserVision acquisition.

Contingent Consideration

When the Company enters into agreements that provide for contingent consideration based on the certain predefined targets being met, an analysis is made to determine whether the contingent consideration represents an additional purchase price obligation or is deemed to be compensation expense. The accounting treatment if the consideration is determined to be an additional purchase price payment is to increase the value assigned to PMAs and deferred contract rights and amortize this additional amount over the remaining period of the relevant agreement. Where the contingent consideration is deemed to be compensation, the expense is reflected as an operating expense in the periods that the service is rendered.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Reclassifications

Certain amounts in prior periods have been reclassified to conform with current period classifications.

Recent Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), "Share-Based Payment" ("Statement 123(R)), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation." Statement 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer permitted.

The effective date of Statement 123(R) is the first reporting period beginning after June 15, 2005, which is third quarter 2005 for the Company, although early adoption is allowed. Statement 123(R) permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of Statement 123(R) for all share-based payments granted after that date, and based on the requirements of Statement 123 for all unvested awards granted prior to the effective date of Statement 123(R). Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with Statement 123.

The Company currently utilizes the Black-Scholes option pricing model to measure the fair value of stock options granted to employees. While Statement 123(R) permits entities to continue to use such a model, the standard also permits the use of a "lattice" model. The Company has not yet determined which model it will use to measure the fair value of employee stock options upon the adoption of Statement 123(R).

The Company currently expects to adopt Statement 123(R) effective July 1, 2005; however, the Company has not yet determined which of the aforementioned adoption methods it will use. Subject to a complete review of the requirements of Statement 123(R), based on stock options granted to employees through December 31, 2004, the Company expects that the adoption of Statement 123(R) on July 1, 2005, would reduce both third quarter 2005 and fourth quarter 2005 net earnings by approximately \$0.7 million each.

3. CHANGE IN FISCAL YEAR-END

The Company changed its fiscal year-end from May 31 to December 31 effective June 1, 2002. Accordingly, the accompanying financial statements include the results of operations and cash flows for the seven-month period ended December 31, 2002. The following unaudited financial information for the twelve-month period ended December 31, 2002 and the seven-month period ended December 31, 2001 is presented for comparative purposes only:

	TWELVE-MONTH PERIOD ENDED DECEMBER 31,			SEVEN-MONTH PERIOD ENDED DECEMBER 31,	
	2004	2003	2002 (UNAUDITED)	2002	2001 (UNAUDITED)
Revenues:					
Refractive:					
Centers	\$ 136,730	\$110,052	\$ 105,520	\$ 54,793	\$ 61,305
Access	40,659	36,140	25,371	21,495	--
Other healthcare services	64,806	49,488	33,714	23,866	8,995
Total revenues	<u>242,195</u>	<u>195,680</u>	<u>164,605</u>	<u>100,154</u>	<u>70,300</u>
Cost of revenues:					
Refractive:					
Centers	96,388	86,045	82,605	49,224	47,609
Access	28,863	25,424	18,103	15,356	--
Impairment of fixed assets	--	--	1,487	--	1,066
Other healthcare services	40,435	31,836	22,968	16,245	4,776
Total cost of revenues	<u>165,686</u>	<u>143,305</u>	<u>125,163</u>	<u>80,825</u>	<u>53,451</u>
Gross margin	<u>76,509</u>	<u>52,375</u>	<u>39,442</u>	<u>19,329</u>	<u>16,849</u>
General and administrative	33,128	31,204	39,158	25,567	22,791
Marketing	13,385	14,094	14,402	8,321	9,215
Amortization of other intangibles	4,098	6,685	8,351	4,074	5,950
Research and development	849	1,598	4,000	2,000	--
Impairment of goodwill and other intangible assets	--	--	103,858	22,138	--
Adjustment to the fair value of investments and long-term receivables	(1,206)	(206)	7,098	2,095	21,079
Restructuring, severance and other charges	<u>2,755</u>	<u>2,040</u>	<u>11,218</u>	<u>4,227</u>	<u>1,759</u>
	<u>53,009</u>	<u>55,415</u>	<u>188,085</u>	<u>68,422</u>	<u>60,794</u>
Operating income (loss)	23,500	(3,040)	(148,643)	(49,093)	(43,945)
Other income and (expense):					
Other income, net	26,367	185	7,996	7,996	--
Interest expense, net	(663)	(1,364)	(752)	(243)	(252)
Minority interest	(6,953)	(4,672)	(1,710)	(1,152)	(586)
Earnings from equity investments	<u>2,057</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Income (loss) before income taxes and cumulative effect of accounting change	44,308	(8,891)	(143,109)	(42,492)	(44,783)
Income tax expense	<u>(600)</u>	<u>(508)</u>	<u>(1,622)</u>	<u>(851)</u>	<u>(504)</u>
Income (loss) before cumulative effect of accounting change	43,708	(9,399)	(144,731)	(43,343)	(45,287)
Cumulative effect of accounting change	--	--	--	--	(15,174)
Net income (loss)	<u>\$ 43,708</u>	<u>\$ (9,399)</u>	<u>\$ (144,731)</u>	<u>\$ (43,343)</u>	<u>\$ (60,461)</u>
Earnings (loss) before cumulative effect of accounting change per share – basic	\$ 0.64	\$ (0.15)	\$ (2.68)	\$ (0.68)	\$ (1.19)
Cumulative effect of accounting change per share – basic	--	--	--	--	(0.40)
Earnings (loss) per share – basic	<u>\$ 0.64</u>	<u>\$ (0.15)</u>	<u>\$ (2.68)</u>	<u>\$ (0.68)</u>	<u>\$ (1.59)</u>
Weighted-average number of common shares outstanding – basic	<u>68,490</u>	<u>64,413</u>	<u>54,077</u>	<u>63,407</u>	<u>38,064</u>
Earnings (loss) before cumulative effect of accounting change per share – diluted	\$ 0.61	\$ (0.15)	\$ (2.68)	\$ (0.68)	\$ (1.19)
Cumulative effect of accounting change per share – diluted	--	--	--	--	(0.40)
Earnings (loss) per share - diluted	<u>\$ 0.61</u>	<u>\$ (0.15)</u>	<u>\$ (2.68)</u>	<u>\$ (0.68)</u>	<u>\$ (1.59)</u>
Weighted-average number of common shares outstanding – diluted	<u>71,088</u>	<u>64,413</u>	<u>54,077</u>	<u>63,407</u>	<u>38,064</u>

4. ACQUISITIONS

For the following acquisitions made by the Company, the related results of operations have been included in the consolidated statements of operations since the acquisition date.

On December 24, 2004, the Company paid \$0.6 million to Omar Hakim, MD to purchase the minority interest of two laser centers which were 75% owned by the Company and to settle legal disputes.

On December 1, 2004, OR Partners entered into a purchase agreement to acquire 25% of an ambulatory surgery center ("ASC") in Texas. The Company paid \$4.5 million in cash and has reported its interest in the ASC under the equity method of accounting since the date of acquisition.

On August 1, 2004, OR Partners purchased an additional 5% ownership interest in its ASC in Mississippi for \$0.7 million of which substantially all was allocated to goodwill. The Company also has an obligation to purchase an additional 5% ownership interest per year for \$0.7 million in cash per year during each of the next two years.

On March 1, 2004, OR Partners entered into a purchase agreement to acquire 70% of an ASC in Texas, which provides access to surgical and diagnostic equipment to perform cataract surgery in hospitals and ASCs. The Company paid \$3.8 million in cash and assumed debt of \$0.4 million. The purchase price allocation included \$4.1 million of goodwill.

On January 1, 2004, the Company settled a lawsuit brought by Thomas S. Tooma, M.D. and TST Acquisitions, LLC ("TST") in October 2002. Under the terms of the settlement, the Company sold approximately 24% of Laser Eye Care of California ("LECC") and 30% of its California access business to TST for \$2.3 million. The Company continues to hold a 30% ownership in LECC, and a 70% ownership in the California access business. The Company recorded a \$1.1 million gain on the sale of these business interests which is included in "general and administrative" in the accompanying statements of operations. Effective January 1, 2004, the Company deconsolidated LECC and began reporting its interest in LECC under the equity method of accounting because it no longer owns a controlling interest in the entity.

On December 31, 2003, a majority-owned subsidiary of the Company became a majority owner of an ASC in Michigan when that ASC purchased some of its shares from one of its investors. After this change in ownership interest, the Company's subsidiary owned 65% of this ASC. Therefore, the assets and liabilities of the ASC were included in the consolidated balance sheet at December 31, 2004 and 2003. The operating results of the ASC were consolidated into the Company's statement of operations for 2004 and were recorded using the equity method of accounting for 2003.

On November 21, 2003, a majority-owned subsidiary of the Company acquired 50% of a medical practice in Ohio for \$1.0 million, of which the Company paid \$0.5 million.

On September 2, 2003, OR Partners acquired 58% of Phoenix Eye Surgical Center, LLC, which operates an ambulatory surgery center in Arizona that primarily performs cataract surgery. The Company paid \$3.8 million in cash for its interest. The purchase price allocation was finalized in 2004 and resulted in \$3.7 million of goodwill.

On March 3, 2003, Midwest Surgical Services, Inc., a subsidiary of *TLCVision*, entered into a purchase agreement to acquire 100% of American Eye Instruments, Inc., which provides access to surgical and diagnostic equipment to perform cataract surgery in hospitals and ambulatory surgery centers. The Company paid \$2.0 million in cash and issued 100,000 common shares. The Company also agreed to make additional cash payments over a three-year period up to \$1.9 million, if certain financial targets are achieved. Of this amount, \$0.4 million has been paid to date.

On August 1, 2002, the Company paid \$7.6 million in cash to acquire a 55% ownership interest in an ASC in Mississippi which specializes in cataract surgery. The purchase price allocation resulted in \$7.4 million of goodwill. In August 2003, the Company purchased an additional 5% ownership for \$0.7 million in cash, substantially all of which was recorded as goodwill.

On August 27, 2001, the Company announced that it had entered into an Agreement and Plan of Merger ("Merger Agreement") with LaserVision. On May 15, 2002, stockholder and regulatory approvals had been obtained, and the Company completed the acquisition of 100% of the outstanding common shares of LaserVision. The merger was effected as an all-stock combination at a fixed exchange rate of 0.95 of a common share of the Company for each issued and outstanding share of LaserVision common stock, which resulted in the issuance of 26.6 million common shares of the Company's common stock. The stock consideration was valued using the average trading price of a *TLCVision* share for the two days prior and subsequent to the announcement date. In addition, the

Company assumed all the options and warrants to acquire stock of LaserVision outstanding at May 15, 2002 and exchanged them for approximately 8.0 million options to purchase common shares of the Company.

The results of operations of LaserVision have been included in the consolidated statement of operations of the Company after May 15, 2002. The total purchase price of the acquisition was \$130.6 million consisting of: \$108.6 million of TLCVision shares issued to LaserVision shareholders; \$9.8 million of costs incurred related to the merger; \$1.2 million in LaserVision shares (583,000 shares) already owned by TLCVision; and \$11.0 million representing the fair value of TLCVision options to purchase common shares in exchange for all the outstanding LaserVision options and warrants as of the effective date of the acquisition. The purchase price allocation resulted in \$87.2 million of acquired goodwill, of which \$65.8 million was assigned to the refractive segment and \$21.4 million was assigned to the cataract surgery segment. The entire \$87.2 million of goodwill is not deductible for tax purposes.

5. RESTRICTED CASH

The Company had \$0.9 million and \$1.4 million of restricted cash as of December 31, 2004 and 2003, respectively, to guarantee outstanding bank letters of credit for leases and litigation.

6. ACCOUNTS RECEIVABLE

Accounts receivable, net of allowances, consist of the following:

	DECEMBER 31,	
	<u>2004</u>	<u>2003</u>
Refractive	\$ 6,474	\$ 7,266
Non-refractive	10,699	8,303
Other	<u>270</u>	<u>48</u>
	<u>\$17,443</u>	<u>\$15,617</u>

Non-refractive accounts receivable primarily represent amounts due from professional corporations for secondary care management services, amounts due from healthcare facilities for professional healthcare facility management fees and outstanding fees for network marketing and management services.

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 regular review of credit limits. As of December 31, 2004 and 2003 the Company had reserves for doubtful accounts and contractual allowances of \$2.3 million and \$2.6 million, respectively. The Company does not have a significant exposure to any individual customer.

7. INVESTMENTS AND OTHER ASSETS

Investments and other assets consist of the following:

	DECEMBER 31,	
	<u>2004</u>	<u>2003</u>
Equity method investments	\$ 7,219	\$ 1,196
Marketable equity securities	3	3
Non marketable equity securities ..	534	534
Long-term receivables and other ...	<u>2,726</u>	<u>1,369</u>
	<u>\$10,482</u>	<u>\$ 3,102</u>

During fiscal 2002, the Company determined that the decline in fair value of its marketable equity securities was other than temporary and as a result recorded a charge to income of \$21.9 million. Included in the \$21.9 million write-down of marketable equity securities was \$1.8 million related to the Company's investment in LaserVision's common shares prior to the merger. The carrying value of these shares of \$1.2 million on May 15, 2002 was included as a component of the cost of the acquisition.

During fiscal 2002, the Company determined that the decline in its non-marketable equity securities was other than temporary and recorded a charge of \$0.9 million to reduce the investments to fair value. The Company estimates fair value of non-marketable equity securities using available market and financial information including recent stock transactions. During the transitional period 2002, these investments were written down an additional \$2.1 million due to additional other than temporary declines in fair value.

Long-term receivables and other include notes from and advances to service providers and other companies and deposits. During fiscal 2002, the Company recorded a \$1.9 million reserve against a \$2.3 million long-term receivable from a secondary care service

provider of which the Company owns approximately 25% of the outstanding common shares. The Company had determined that the ability of this secondary care service provider to repay this note was in doubt due to the deteriorating financial condition of the investee. During the first six months of 2003, the secondary care provider was profitable, improved its financial strength and consistently made all payments to the Company when due. As a result, the Company reevaluated the collectibility of this note receivable as of June 30, 2003 and recorded an adjustment to the fair value of investments and long-term receivables of \$0.7 million to reverse a portion of the reserve. Throughout 2003 and 2004, this secondary care provider has improved its profitability and financial position and made all of its payments to the Company when due. As a result, the Company reevaluated the collectibility of the note again as of June 30, 2004 and recorded an adjustment to the fair value of investments and long-term receivables to reverse the remaining reserve of \$1.2 million.

In December 2004, the Company loaned additional funds to the provider to fund expansion of the business by retiring the \$1.9 million balance of the original loan and replacing it with a \$2.8 million loan, payable over 5 years at a 6% interest rate.

During fiscal 2002, the Company entered into a joint venture with OccuLogix for the purpose of pursuing commercial applications of technologies owned or licensed by OccuLogix applicable to the evaluation, diagnosis, monitoring and treatment of dry age related macular degeneration. Prior to the reorganization and IPO of OccuLogix (see Note 1), the Company accounted for its investment as a research and development arrangement since the technology is in the development stage and has not received FDA approval. The Company purchased \$1.0 million and \$2.0 million in Series B preferred stock in the year ended May 31, 2002 and the transitional period ended December 31, 2002, respectively, and expensed it as a research and development arrangement. During 2003, the Company agreed to advance up to an additional \$6.0 million to OccuLogix pursuant to a secured convertible grid debenture. The first \$3.5 million advanced pursuant to such debenture is convertible into common shares of OccuLogix. OccuLogix also granted an option to the Company to acquire an amount of common shares equal to the undrawn portion of the debenture at any point in time. In 2003, the Company expensed \$1.6 million to research and development related to payments made to OccuLogix during the year. Of this amount, \$1.3 million reduced the value of the \$6.0 million obligation to OccuLogix, and \$0.3 million represented an additional equity investment in Common Stock and therefore did not reduce the amount of the remaining obligation. In fiscal 2004, the Company advanced \$2.2 million to OccuLogix, satisfying the \$3.5 million obligation that was converted into shares of OccuLogix. Of this amount, the Company advanced \$1.2 million to OccuLogix in the first three quarters of 2004 and expensed it as research and development. The remaining advance to OccuLogix of \$1.0 million in the fourth quarter of 2004 was recorded as an investment because it was not used by OccuLogix for operating purposes, but rather was available at December 31, 2004 for future needs. Due to the IPO of OccuLogix, the Company was not required to fund any additional amounts.

In fiscal 2002, the Company advanced \$1.0 million to Tracey Technologies, LLC ("Tracey") to support the development of laser scanning technology. This advance was used by Tracey to further develop the technology, and the Company recorded the advance as research and development expense. In 2004, Tracey repaid \$0.4 million of the advance and agreed to repay the remaining \$0.6 million in exchange for the Company's release of its claims on certain potential royalties should Tracey obtain FDA approval for its technology. The Company recorded the \$0.4 million repayment from Tracey as a reduction to research and development expense for the year ended December 31, 2004 and will record the remaining \$0.6 million when collection becomes probable.

8. GOODWILL

Effective June 1, 2001, the Company early adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are subject to an annual impairment review (or more frequently if deemed appropriate).

The Company's net goodwill amount by reported segment is as follows:

	<u>REFRACTIVE</u>	<u>CATARACT</u>	<u>OTHER</u>	<u>TOTAL</u>
December 31, 2002	\$ 13,990	\$ 19,091	\$ 7,616	\$ 40,697
Acquired during the period	<u>786</u>	<u>2,393</u>	<u>4,953</u>	<u>8,132</u>
December 31, 2003	14,776	21,484	12,569	48,829
Deconsolidated due to partial sale of LECC	(467)	--	--	(467)
Acquired during the period	<u>181</u>	<u>306</u>	<u>4,925</u>	<u>5,412</u>
December 31, 2004	<u>\$14,490</u>	<u>\$ 21,790</u>	<u>\$ 17,494</u>	<u>\$ 53,774</u>

The Company completed a transitional impairment test to identify if goodwill was impaired as of June 1, 2001. The Company utilized the assistance of an independent outside appraiser to determine the fair value of the Company's reporting units. The

independent appraiser used a fair value methodology based on budget information to generate representative values of the future cash flows attributable to each reporting unit. The Company determined that goodwill was impaired at June 1, 2001 and recorded an impairment charge of \$15.2 million, which was recorded as a cumulative effect of a change in accounting principle.

The Company tests goodwill for impairment in the fourth quarter after the annual forecasting process. The Company performed its annual impairment test in the fourth quarter of fiscal 2002 and determined that there was a further impairment of goodwill during 2002 of \$50.7 million, which was recorded as a charge to income during the year. This charge was comprised of \$45.9 million which relates to the goodwill attributable to reporting units acquired in the LaserVision acquisition and \$4.8 million relating to goodwill attributable to reporting units acquired in prior years. During the transitional period 2002, the Company recorded a goodwill impairment charge of \$22.1 million in the refractive segment. The charge includes \$21.8 million related to the goodwill attributable to the reporting unit acquired in the LaserVision acquisition and \$0.3 million attributable to reporting units acquired in prior years.

During the fourth quarters of fiscal 2004 and 2003, the Company again performed its annual impairment test. Based on the trend of stabilizing procedure volumes and increased pricing related to Custom LASIK in the refractive segment, the earning forecast for the next five years was significantly improved from the prior year periods. After estimating the fair value of each reporting unit using the present value of expected future cash flows, the Company determined that no goodwill impairment charges should be recorded during the years ended December 31, 2004 and 2003.

9. OTHER INTANGIBLE ASSETS

The Company's other intangible assets consist of practice management agreements ("PMAs"), deferred contract rights and other intangibles. The Company has no indefinite-lived intangible assets. Amortization expense was \$4.1 million, \$6.7 million, \$4.1 million and \$10.2 million for the years ended December 31, 2004 and 2003, the seven-month period ended December 31, 2002 and the year ended May 31, 2002, respectively.

The remaining weighted average amortization period for PMAs is 6.2 years, for deferred contract rights is 6.0 years, and for other intangibles is 13.9 years as of December 31, 2004.

Intangible assets subject to amortization consist of the following at December 31:

	2004		2003	
	<u>GROSS CARRYING AMOUNT</u>	<u>ACCUMULATED AMORTIZATION</u>	<u>GROSS CARRYING AMOUNT</u>	<u>ACCUMULATED AMORTIZATION</u>
Practice management agreements....	\$ 33,329	\$ 23,647	\$ 43,644	\$ 31,381
Deferred contract rights.....	13,854	6,024	13,861	3,753
Other.....	786	158	670	82
Total	<u>\$ 47,969</u>	<u>\$ 29,829</u>	<u>\$ 58,175</u>	<u>\$ 35,216</u>

The estimated amortization expense for the next five years as of December 31, 2004 is as follows:

2005.....	\$ 3,700
2006.....	3,000
2007.....	3,000
2008.....	2,300
2009.....	2,000

Intangible assets arising from PMAs were reviewed for impairment in fiscal 2002 because impairment indicators were present. The refractive industry had experienced reduced procedure volumes over the previous two years as a result of increased competition, customer confusion and a weakening in the North American economy. This reduction in procedures had occurred at practices the Company had purchased, and as a result, revenues were lower than anticipated when initial purchase prices and resulting intangible values were determined. The result of an initial review indicated that on an undiscounted basis, all of the refractive PMAs were impaired, and a further fair value analysis based on the present value of estimated future cash flows was completed to determine the extent of the impairment. This further review resulted in an impairment charge of \$31.0 million, which was included in the operating loss for the year ended May 31, 2002.

10. FIXED ASSETS

Fixed assets, including capital leased assets, consist of the following:

	DECEMBER 31,	
	2004	2003
Land and buildings.....	\$ 11,280	\$ 11,643
Computer equipment and software	13,014	13,806
Furniture, fixtures and equipment.....	9,476	10,356
Laser equipment.....	32,137	38,046
Leasehold improvements	17,165	20,050
Medical equipment.....	30,332	31,814
Vehicles and other.....	8,599	8,633
	<u>122,003</u>	<u>134,348</u>
Less accumulated depreciation	<u>75,804</u>	<u>77,457</u>
Net book value	<u>\$ 46,199</u>	<u>\$ 56,891</u>

For the years ended December 31, 2004 and 2003, the transitional period 2002 and the year ended May 31, 2002, depreciation expense was \$13.6 million, \$15.9 million, \$9.8 million and \$11.1 million, respectively. Depreciation expense includes depreciation of assets reported under capital leases.

Certain fixed assets are pledged as collateral for certain long-term debt and capital lease obligations.

During fiscal 2002, the Company determined that events and circumstances indicated that the carrying value of certain of the Company's lasers may not be recoverable. As a result, the Company evaluated the assets and concluded they were impaired. In accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and Assets to Be Disposed Of," the Company recorded an impairment charge of \$2.6 million within the refractive segment, to write the assets down to their fair value.

In fiscal 2002, the Company completed a sale-leaseback transaction for its Canadian corporate headquarters. Total consideration received for the sale was \$6.4 million, which was comprised of \$5.4 million cash and a \$1.0 million 8.0% note receivable ("Note"). The Note has a seven-year term with the first of four annual payments of \$63,000 starting on the third anniversary of the sale and a final payment of \$0.7 million due on the seventh anniversary of the sale. The lease term related to the leaseback covers a period of 15 years. For accounting purposes, due to ongoing responsibility for tenant management and administration, as well as receiving the Note as part of the consideration for the sale, no sale was recognized. For purpose of financial reporting, the cash proceeds of \$5.4 million have been presented as additional debt. The four annual payments and the final payment, upon receipt, will result in additional debt, while lease payments will result in decreasing the debt and recognizing interest expense. The first payment of \$63,000 was received in 2004. Until the Company meets the accounting qualifications for recognizing the sale, the building associated with the sale-leaseback will continue to be depreciated over its initial life of 40 years.

11. ACCRUED LIABILITIES

Accrued liabilities included \$8.1 million and \$5.8 million of accrued wages and related expenses as of December 31, 2004 and 2003, respectively.

12. LONG-TERM DEBT

Long-term debt consists of:

	DECEMBER 31,	
	<u>2004</u>	<u>2003</u>
Interest at 3.11%, due through October 2005, payable to vendor	\$ 1,264	\$ 2,781
Interest imputed at 9%, due in four payments from March 2002 through 2005, payable to affiliated doctor relating to practice acquisition	2,294	4,398
Interest imputed at 6.25%, due through October 2016, collateralized by building (C\$7.4 million at December 31, 2004)	6,138	5,979
Interest imputed at 8%, due through December 2006, payable to vendors	3,224	5,743
Line of credit, interest at LIBOR plus 3% (5.42% at December 31, 2004), due in November 2008, secured by certain current assets and investments	--	2,000
Interest at variable rate not to exceed 1.25% over bank base rate (5.25% at December 31, 2004), collateralized by equipment, paid off in 2004	--	2,346
Interest at 3.75% to 5.75%, due through 2009, collateralized by real estate and equipment	3,038	2,817
Capital lease obligations, payable through 2008, interest ranging from 7% to 8.5%	2,352	3,251
Other	<u>345</u>	<u>212</u>
	18,655	29,527
Less current portion	<u>8,664</u>	<u>10,285</u>
	<u>\$ 9,991</u>	<u>\$ 19,242</u>

Principal maturities for each of the next five years and thereafter as of December 31, 2004 are as follows:

2005	\$ 8,664
2006	2,543
2007	1,039
2008	1,275
2009	575
Thereafter	<u>4,559</u>
Total	<u>\$18,655</u>

In November 2003, the Company obtained a \$15 million line of credit for five years from GE Healthcare Financial Services (the "Agreement") for a \$0.1 million commitment fee and \$0.2 million in related legal and out-of-pocket expenses. This loan is secured by certain accounts receivable and cash accounts in wholly-owned subsidiaries and Aspen Healthcare and a general lien on most other U.S. assets. As of December 31, 2004, the Company did not have any borrowings drawn under the line of credit and had an available unused line of \$15 million.

The Agreement includes a subjective acceleration clause and a requirement to maintain a "springing" lock-box, whereby remittances from the Company's customers are forwarded to the Company's bank account and do not reduce the outstanding debt until and unless the lender exercises the subjective acceleration clause. Consequently, outstanding borrowings were classified as long-term at December 31, 2003.

Under the Agreement, the Company must maintain (1) consolidated cash of \$12.5 million or more, (2) a maximum total debt/EBITDA (Earnings Before Income Taxes, Depreciation and Amortization) ratio no more than 1.5, (3) a fixed charge coverage ratio (including option proceeds and excluding most non-cash charges) of at least 1.1 and (4) obtain GE's approval for certain ineligible acquisitions and unfunded capital additions greater than \$2 million per year.

Payments for capital lease obligations for each of the next five years as of December 31, 2004 are as follows:

2005	1,490
2006	739
2007	216
2008	15
2009	--
Thereafter	<u>--</u>
Total	2,460
Less interest portion	<u>108</u>
	<u>\$ 2,352</u>

13. OTHER INCOME AND EXPENSE

Other income and expense for the year ended December 31, 2004 included a \$25.8 million gain on the sale of 2.3 million shares of OccuLogix, Inc., in conjunction with OccuLogix, Inc.'s IPO in December 2004 (see Note 1).

During the year ended December 31, 2003, the Company recorded \$0.2 million of other income related to additional proceeds from the settlement of an antitrust lawsuit in 2002.

Other income and expense for the seven months ended December 31, 2002 included \$6.8 million of income from the settlement of an antitrust lawsuit. In August 2002, LaserVision received \$8.0 million in cash from the settlement, and TLC*Vision* received \$7.1 million in cash from the settlement. The cash received for the LaserVision portion reduced the receivable recorded in the purchase price allocation. The cash received for the TLC*Vision* portion was recorded as a gain of \$6.8 million (net of \$0.3 million for its obligations to be paid to the minority interests).

During the transitional period, the Company recorded \$0.9 million of income from the termination of the Surgicare Inc. ("Surgicare") agreement to purchase Aspen Healthcare ("Aspen") from the Company. On May 16, 2002, the Company agreed to sell the capital stock of its Aspen subsidiary to SurgiCare for a purchase price of \$5.0 million in cash and warrants for 103,957 shares of common stock of SurgiCare with an exercise price of \$2.24 per share. On June 14, 2002, the purchase agreement for the transaction was amended due to the failure of Surgicare to meet its obligations under the agreement. The amendment established a new closing date of September 14, 2002 and required SurgiCare to issue 38,000 shares of SurgiCare common stock and to pay \$760,000 to the Company, prior to closing, all of which was non refundable. SurgiCare failed to perform under the purchase agreement, and as a result, the purchase agreement was terminated and the Company recorded the gain in other income and expense for the period.

14. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share were \$0.64, \$(0.15), \$(0.68) and \$(4.13) in 2004, 2003, the transitional period 2002 and fiscal 2002, respectively. The per share amounts have been computed on the basis of the weighted average number of shares outstanding.

Because the Company incurred a net loss for 2003, the transitional period 2002 and fiscal 2002, the respective calculations of diluted loss per share exclude the impact of all stock options and warrants. The calculation of diluted earnings per share for 2004 excludes the impact of 0.9 million stock options and warrants because to include them would have been anti-dilutive. Diluted earnings (loss) per share have been computed as follows:

	Year Ended December 31,		Seven-Month	Year Ended
	2004	2003	Period Ended December 31, 2002	May 31, 2002
Net income (loss)	\$ 43,708	\$ (9,399)	\$ (43,343)	\$ (161,849)
Weighted-average shares outstanding - basic	68,490	64,413	63,407	39,215
Stock options and warrants	<u>2,598</u>	<u>--</u>	<u>--</u>	<u>--</u>
Weighted-average shares outstanding - diluted	71,088	64,413	63,407	39,215
Earnings (loss) per share - diluted	<u>\$ 0.61</u>	<u>\$ (0.15)</u>	<u>\$ (0.68)</u>	<u>\$ (4.13)</u>

15. STOCKHOLDERS' EQUITY AND OPTIONS

Option and Warrants

In January 2000, the Company issued 100,000 warrants with an exercise price of \$13.063 per share to an employee benefits company as consideration. These warrants were not transferable and expired in December 2004. Using the Black-Scholes option-pricing model (assumptions - five year life, volatility of 0.35, risk-free rate of return 6.35%, no dividends), a \$0.5 million fair value was assigned to these warrants, which was amortized over the vesting period.

The 8,019,000 options issued in connection with the LaserVision merger had a fair value of \$11.0 million using the Black-Scholes option pricing model (assumptions - 2 years to 5 years estimated lives, volatility of .74, risk-free rates of returns 3.34% to 3.72%, no dividends, market price of \$4.1725 on the date the merger was announced in August 2001, exercise prices ranging from \$1.713 to \$8.688 per share). The 8,019,000 total consists of 7,519,000 converted Laser Vision options and 500,000 new Company options.

Options Outstanding

As of December 31, 2004, the Company has issued stock options to employees, directors and certain other individuals. Options granted have terms ranging from five to ten years. Vesting provisions on options granted to date include options that vest immediately, options that vest in equal amounts annually over the first two years or four years of the option term and options that vest entirely on the first anniversary of the grant date.

As of December 31, 2004, the issued and outstanding options denominated in Canadian dollars were at the following prices and terms:

PRICE RANGE (CDN \$)	OUTSTANDING			EXERCISABLE	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
\$ 1.43 - \$ 3.87	312	2.4 years	C\$ 3.01	111	C\$ 3.49
\$ 4.04 - \$ 6.67	135	2.1 years	4.33	89	4.17
\$ 7.70 - \$ 8.98	56	3.5 years	7.96	19	7.91
\$11.02 - \$ 19.73	<u>72</u>	4.8 years	<u>12.89</u>	<u>3</u>	<u>16.09</u>
	<u>575</u>	2.7 years	<u>C\$ 5.04</u>	<u>222</u>	<u>C\$ 4.31</u>

As of December 31, 2004, the issued and outstanding options denominated in U.S. dollars were at the following prices and terms:

PRICE RANGE (U.S.\$)	OUTSTANDING			EXERCISABLE	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
\$ 0.90 - \$ 2.80	1,451	3.1 years	\$ 1.76	815	\$ 2.19
\$ 3.02 - \$ 4.94	752	3.5 years	4.15	738	4.14
\$ 5.00 - \$ 7.81	494	3.8 years	6.13	180	6.11
\$ 8.69 - \$ 13.63	<u>931</u>	4.9 years	<u>10.45</u>	<u>3</u>	<u>10.83</u>
	<u>3,628</u>	3.7 years	<u>\$ 5.08</u>	<u>1,736</u>	<u>\$ 3.44</u>

A total of 1,076,000 options have been authorized for issuance but was not granted as of December 31, 2004. A summary of option activity during the last three fiscal years and the transitional period follows:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
May 31, 2001	2,853	Cdn\$12.65	US\$8.46
Granted.....	1,221	4.45	2.81
Exercised.....	(10)	4.06	2.67
Forfeited.....	(610)	10.52	7.06
Granted, LaserVision merger.....	<u>7,519</u>	<u>7.79</u>	<u>5.08</u>
May 31, 2002	10,973	Cdn\$8.50	US\$5.59
Granted.....	11	2.17	1.42
Exercised.....	(5)	2.47	1.61
Surrendered.....	(618)	27.05	17.68
Reissued.....	610	13.69	8.69
Forfeited.....	(824)	9.66	6.95
Expired.....	<u>(1,467)</u>	<u>6.12</u>	<u>4.00</u>
December 31, 2002	8,680	Cdn\$7.80	US\$5.10
Granted.....	1,721	3.30	2.82
Exercised.....	(2,102)	4.38	4.11
Forfeited.....	(313)	4.79	4.32
Expired.....	<u>(443)</u>	<u>15.07</u>	<u>7.29</u>
December 31, 2003	7,543	Cdn\$4.90	US\$4.90
Granted.....	1,018	12.73	10.38
Exercised.....	(4,198)	7.49	5.90
Forfeited.....	(100)	3.89	6.16
Expired.....	<u>(60)</u>	<u>16.35</u>	<u>10.84</u>
December 31, 2004	<u>4,203</u>	<u>Cdn\$5.04</u>	<u>US\$5.08</u>
Exercisable at December 31, 2004...	<u>1,958</u>	<u>Cdn\$4.31</u>	<u>US\$3.44</u>

In addition to the above stock options, OccuLogix may grant stock options of its common stock to employees, directors and consultants under the terms of the OccuLogix 2002 Stock Option Plan. Up to 4.5 million shares of OccuLogix's common stock may be issued under the OccuLogix plan. As of December 31, 2004, OccuLogix employees, directors and consultants held options to purchase 2.7 million shares of OccuLogix's common stock.

Immediately prior to the effective time of the merger, LaserVision reduced the exercise price of approximately 2.1 million outstanding stock options and warrants of Laser Vision with an exercise price greater than \$8.688 per share to \$8.688 per share. This reduction was part of the merger agreement approved by LaserVision stockholders in April 2002. The vesting and expiration dates did not change. Post-merger, these former LaserVision options became approximately 2.0 million options of the Company with an exercise price of \$8.688. These options are part of the 7,519,000 options granted in connection with the LaserVision merger.

Pursuant to a plan approved by the Company's stockholders in April 2002, most employees and officers with options at exercise prices greater than \$8.688 elected to exchange them for options with an exercise price of \$8.688 (Cdn\$13.69). A total of 618,000 shares with an average exercise price of \$17.68 (Cdn\$27.05) were exchanged for 610,000 shares with exercise prices of \$8.688 (Cdn\$13.69). For every option with an exercise price of at least \$40, the holder surrendered 75% of the shares subject to such option; for every option with an exercise price of at least \$30 but less than \$40, the holder surrendered 66.6% of the shares subject to such option; for every option with an exercise price of at least \$20 but less than \$30, the holder surrendered 50% of the shares subject to such option; and for every option with an exercise price of at least \$8.688 but less than \$20, the holder did not surrender any of the shares subject to such option. These repriced options are subject to variable option accounting, and compensation expense is recorded whenever these options are outstanding and the market price of the Company's stock is \$8.688 (Cdn \$13.69) or higher. As of December 31, 2004, 1,000 U.S. options were subject to variable option accounting. In 2004, the Company recorded \$0.1 million of expense related to these repriced options.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS No. 123 and has been included in Note 2 to the financial statements. The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.84% for fiscal 2004, 2.35% for fiscal 2003, 2.5% for the transitional period 2002 and 4.25% for fiscal 2002; no dividends; volatility factors of the expected market price of the Company's common shares of 0.75 for fiscal 2004 and fiscal 2003, 0.70 for the transitional period and 0.88 for fiscal

2002; and a weighted average expected option life of 2.5 years for fiscal 2004, fiscal 2003 and the transitional period, and 4.0 years for fiscal 2002. The estimated value of the options issued in connection with the LaserVision acquisition was recorded as part of the cost of the acquisition. The fair market value of the options granted during fiscal 2004 was \$4.9 million (fiscal 2003 - \$2.2 million; transitional period ended December 31, 2002 - \$12,000; fiscal 2002 - \$1.3 million). The Black-Scholes option-pricing model was developed for use in estimating fair value of traded options that have no vesting restrictions and are fully transferable.

Because the Company's employee stock options have characteristics significantly different from those of traded options (deferred/partial vesting and no trading during four "black-out" periods each year) and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the previous pro forma adjustments for SFAS No. 123 are not necessarily a reliable single measure of the fair value of the Company's employee stock options.

16. INCOME TAXES

Significant components of the Company's deferred tax assets and liabilities are as follows:

	DECEMBER 31,	
	<u>2004</u>	<u>2003</u>
Deferred tax asset:		
Net operating loss carryforwards	\$ 89,444	\$ 81,670
Fixed assets	2,108	362
Intangibles	15,995	10,357
Investments	10,689	11,330
Accruals and other reserves.....	5,889	6,718
163J Adjustment	--	12,676
Stock options.....	5,566	--
Foreign tax credit	15	--
Other	<u>4,237</u>	<u>1,854</u>
Total	133,943	124,967
Valuation allowance	<u>(132,111)</u>	<u>(122,831)</u>
	<u>\$ 1,832</u>	<u>\$ 2,136</u>
Deferred tax liabilities:		
Practice management agreements	\$ 1,203	\$ 1,349
Intangibles.....	<u>629</u>	<u>787</u>
	<u>\$ 1,832</u>	<u>\$ 2,136</u>

As of December 31, 2004, the Company has net operating losses available for carryforward for income tax purposes of approximately \$235.4 million, which are available to reduce taxable income in 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 \$24.5 million expire between 2007 and 2013.

The U.S. losses of \$203.5 million expire between 2011 and 2024. The U.S. losses include amounts of \$116.2 million, relating to the acquisitions of 20/20, Beacon Eye, LaserVision and OccuLogix, Inc. The availability and timing of utilization of these losses are restricted.

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

	YEAR ENDED DECEMBER 31,		SEVEN-MONTH PERIOD ENDED	YEAR ENDED
	2004	2003	DECEMBER 31, 2002	MAY 31, 2002
Income tax expense (recovery) at the Canadian statutory rate of 36.125% (fiscal 2003 - 35.1%; Transitional 2002 - 39.4%; fiscal 2002 - 40.3%)	\$ 16,006	\$ (3,121)	\$ (16,731)	\$ (46,963)
Change in valuation allowance	(16,337)	1,929	5,824	10,025
Expenses not deductible for income tax purposes	300	150	10,907	37,733
Change in Canadian tax rates.....	31	1,042	--	--
Corporate minimum tax, state tax and foreign tax.....	600	508	851	1,221
Other	--	--	--	(232)
	<u>\$ 600</u>	<u>\$ 508</u>	<u>\$ 851</u>	<u>\$ 1,784</u>

The provision for income taxes is as follows:

	YEAR ENDED DECEMBER 31,		SEVEN-MONTH PERIOD ENDED	YEAR ENDED
	2004	2003	DECEMBER 31, 2002	MAY 31, 2002
Current:				
Canada.....	\$ 150	\$ 85	\$ 67	\$ 112
United States - federal	--	58	325	924
United States - state	450	175	135	280
Other.....	--	190	324	468
	<u>\$ 600</u>	<u>\$ 508</u>	<u>\$ 851</u>	<u>\$ 1,784</u>

17. COMMITMENTS AND CONTINGENCIES

Commitments

The Company leases certain center facilities under operating leases with terms generally of five to ten years. Certain leases contain rent escalation clauses and free rent periods that are charged to rent expense on a straight-line basis. The leases usually contain renewal clauses at the Company's option at fair market value. As of December 31, 2004, the Company has commitments relating to non-cancellable operating leases for rental of office space and equipment, which require future minimum payments aggregating approximately \$22.5 million. Future minimum payments over the next five years and thereafter are as follows:

2005	\$ 8,141
2006	6,128
2007	3,728
2008	2,378
2009	1,372
Thereafter	724
	<u>\$ 22,471</u>

As of December 31, 2004, the Company had commitments related to long-term marketing contracts which require payments totaling \$2.2 million in 2005 and \$0.2 million in 2006.

Commitments and Contingencies Related to OccuLogix

OccuLogix entered into three separate agreements to obtain the exclusive license to certain patents. OccuLogix is required to make royalty payments totaling 3.0% of its product sales. In addition, OccuLogix is required to make minimum advance royalty payments of \$37,500 quarterly, which will be credited against future royalty payments to be made in accordance with the agreements.

Future minimum royalty payments under the OccuLogix agreements as at December 31, 2004 are approximately as follows:

2005	\$ 150
2006	150
2007	150
2008	150
2009 and thereafter	<u>1,275</u>
	<u>\$ 1,875</u>

In 2004, OccuLogix placed a purchase order for inventory representing a total commitment of \$2.7 million. As of December 31, 2004, \$0.4 million has been purchased against that purchase order.

In addition, OccuLogix has committed to purchase minimum quantities of inventory beginning six months after FDA approval of the RHEO™ System. Minimum purchase orders for the fourth year shall be determined immediately after the term of the first year by mutual consent but shall not be less than that of the previous year. This same method shall be used in subsequent years to determine future minimum purchase quantities such that minimum purchase quantities are always fixed for three years. Future minimum annual commitments after FDA approval are approximately as follows:

Year 1	\$ 2,565
Year 2	4,275
Year 3	6,413

Legal Contingencies

In March 2003, the Company and its subsidiary, OR Providers, Inc., were served with subpoenas issued by the U.S. Attorney's Office in Cleveland, Ohio. The subpoenas appear to relate to business practices of OR Providers prior to its acquisition by LaserVision in December 2001. OR Providers is a provider of mobile cataract services in the eastern part of the United States. The Company is aware that other entities and individuals have also been served with similar subpoenas. The subpoenas seek documents related to certain business activities and practices of OR Providers. The Company cooperated fully to comply with the subpoenas. In December 2004, the Company was advised by the office of the U.S. Attorney in Cleveland that the U.S. Attorney no longer had a need for the documents the Company supplied in compliance with the above-referenced subpoenas. Although there can be no assurance, the Company believes that this matter has been concluded.

The Company is subject to various claims and legal actions in the ordinary course of its business, which may or may not be covered by insurance. These matters include, without limitation, professional liability, employee-related matters and inquiries and investigations by governmental agencies. While the ultimate results of such matters cannot be predicted with certainty, the Company believes that the resolution of these matters will not have a material adverse effect on its consolidated financial position or results of operations.

Regulatory Tax Contingencies

TLCVision operates in 48 states and two Canadian provinces and is subject to various federal, state and local income, payroll, unemployment, property, franchise, capital, sales and use tax on its operations, payroll, assets and services. TLCVision endeavors to comply with all such applicable tax regulations, many of which are subject to different interpretations, and has hired outside tax advisors who assist in the process. Many states and other taxing authorities have been interpreting laws and regulations more aggressively to the detriment of taxpayers such as TLCVision and its customers. TLCVision believes that it has adequate provisions and accruals in its financial statements for tax liabilities, although it cannot predict the outcome of future tax assessments.

Tax authorities in three states have contacted TLCVision and issued proposed sales tax adjustments in the aggregate amount of approximately \$0.8 million for various periods through 2004 on the basis that certain of TLCVision's business arrangements constitute at least a partially taxable transaction rather than an exempt service. TLCVision's discussions with these three states are ongoing. If it is determined that any sales tax is owed, TLCVision believes that, under applicable laws and TLCVision's contracts with its customers, each customer is ultimately responsible for the payment of any applicable sales and use taxes in respect of TLCVision's services. However, TLCVision may be unable to collect any such amounts from its customers and in such event would remain responsible for payment. TLCVision cannot yet predict the outcome of these outstanding assessments or any other assessments or similar actions which may be undertaken by other state tax authorities. TLCVision has evaluated and implemented a comprehensive sales tax reporting system. TLCVision believes that it has adequate provisions in its financial statements with respect to these matters.

18. SEGMENT INFORMATION

The Company has three reportable segments: refractive, mobile cataract and AMD. The refractive segment provides the majority of the Company's revenue and is in the business of providing corrective laser surgery specifically related to refractive disorders, such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. This segment is comprised of laser centers and the fixed and mobile access business. The mobile cataract segment provides surgery specifically for the treatment of cataracts. The Company acquired the mobile cataract segment in the LaserVision acquisition; therefore, no amounts are shown for that segment in periods prior to June 1, 2002. The AMD segment includes OccuLogix, Inc., OccuLogix, LP, Rheo and investments in Vascular Sciences. The AMD segment is pursuing commercial applications of treatments of dry age related macular degeneration. The Company entered into a joint venture with OccuLogix in 2002. The Company first incurred expenses related to AMD during the transitional period 2002; therefore, no amounts are shown for AMD in periods prior to June 1, 2002. Other includes an accumulation of other healthcare business activities including the management of cataract and secondary care centers that provide advanced levels of eye care, network marketing and management and professional healthcare facility management. None of these activities meet the quantitative criteria to be disclosed separately as a reportable segment.

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.

Inter-segment sales and transfers are minimal and are recorded as if the sales or transfers were to third parties.

Doctors' compensation as presented in the segment information of the financial statements represent the cost to the Company of engaging ophthalmic professionals to perform laser vision correction services at the Company's laser centers. Where the Company manages laser centers due to certain state law requirements, it is the responsibility of the professional corporations or physicians to whom the Company furnishes management services to provide the required professional services and engage ophthalmic professionals. Prior to 2004, the costs associated with arranging for these professional services were reported as a cost of the professional corporation and not of the Company. In 2004, the costs associated with arranging for these professional services were reported as a cost of the Company due to the adoption of FIN 46.

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. The Company's business units were acquired or developed as a unit, and management at the time of acquisition was retained.

The Company's business segments were as follows:

<u>YEAR ENDED DECEMBER 31, 2004</u>	<u>MOBILE</u>				<u>TOTAL</u>
	<u>REFRACTIVE</u>	<u>CATARACT</u>	<u>AMD</u>	<u>OTHER</u>	
Revenues	\$ 177,389	\$ 27,040	\$ 837	\$ 36,929	\$242,195
Expenses:					
Doctors' compensation.....	28,156	--	147	7	28,310
Operating.....	121,419	22,325	2,377	24,185	170,306
Depreciation expense	10,488	2,197	104	794	13,583
Amortization of intangibles	3,207	417	--	474	4,098
Research and development.....	--	--	1,249	(400)	849
Adjustment to the fair value of investments.....	(1,206)	--	--	--	(1,206)
Restructuring, severance and other charges	2,755	--	--	--	2,755
	<u>164,819</u>	<u>24,939</u>	<u>3,877</u>	<u>25,060</u>	<u>218,695</u>
Income (loss) from operations	12,570	2,101	(3,040)	11,869	23,500
Other income and interest expense, net.....	1,346	(114)	25,829	(1,357)	25,704
Minority interests	(1,863)	--	411	(5,501)	(6,953)
Earnings from equity investments.....	1,575	--	--	482	2,057
Income taxes	(303)	(3)	--	(294)	(600)
Net income	<u>\$ 13,325</u>	<u>\$ 1,984</u>	<u>\$ 23,200</u>	<u>\$ 5,199</u>	<u>\$ 43,708</u>
Total assets.....	<u>\$ 191,734</u>	<u>\$ 15,716</u>	<u>\$ 61,440</u>	<u>\$ 36,351</u>	<u>\$305,241</u>
Purchases of long-lived assets.....	<u>\$ 4,071</u>	<u>\$ 1,497</u>	<u>\$ 227</u>	<u>\$ 7,386</u>	<u>\$ 13,181</u>

<u>YEAR ENDED DECEMBER 31, 2003</u>	<u>MOBILE</u>				<u>TOTAL</u>
	<u>REFRACTIVE</u>	<u>CATARACT</u>	<u>AMD</u>	<u>OTHER</u>	
Revenues	\$ 146,192	\$ 24,812	\$ 622	\$ 24,054	\$195,680
Expenses:					
Doctors' compensation.....	10,475	--	139	20	10,634
Operating.....	124,786	20,623	906	15,746	162,061
Depreciation expense	12,936	2,368	47	557	15,908
Amortization of intangibles.....	5,858	397	--	430	6,685
Research and development.....	--	--	1,598	--	1,598
Adjustment to the fair value of investments.....	(206)	--	--	--	(206)
Restructuring, severance and other charges	2,040	--	--	--	2,040
	<u>155,889</u>	<u>23,388</u>	<u>2,690</u>	<u>16,753</u>	<u>198,720</u>
Income (loss) from operations	(9,697)	1,424	(2,068)	7,301	(3,040)
Other income and interest expense, net.....	(149)	(61)	(3)	(966)	(1,179)
Minority interests	(1,709)	--	--	(2,963)	(4,672)
Income taxes	151	18	--	(677)	(508)
Net income (loss)	<u>\$ (11,404)</u>	<u>\$ 1,381</u>	<u>\$ (2,071)</u>	<u>\$ 2,695</u>	<u>\$ (9,399)</u>
Total assets.....	<u>\$ 140,796</u>	<u>\$ 13,972</u>	<u>\$ 490</u>	<u>\$ 35,490</u>	<u>\$190,748</u>
Purchases of long-lived assets.....	<u>\$ 707</u>	<u>\$ 2,587</u>	<u>\$ 382</u>	<u>\$ 4,642</u>	<u>\$ 8,318</u>

<u>SEVEN-MONTH PERIOD ENDED DECEMBER 31, 2002</u>	<u>MOBILE</u>			<u>TOTAL</u>	
	<u>REFRACTIVE</u>	<u>CATARACT</u>	<u>AMD</u>		<u>OTHER</u>
Revenues.....	\$ 76,288	\$ 12,944	\$ --	\$ 10,922	\$ 100,154
Expenses:					
Doctors' compensation.....	6,523	--	--	--	6,523
Operating.....	79,869	10,040	30	8,193	98,132
Research and development.....	--	--	2,000	--	2,000
Depreciation expense.....	8,361	1,172	--	525	10,058
Amortization of intangibles.....	3,592	482	--	--	4,074
Impairment of intangibles.....	22,138	--	--	--	22,138
Write-down in the fair value of investments.....	2,095	--	--	--	2,095
Restructuring, severance and other charges.....	4,227	--	--	--	4,227
	<u>126,805</u>	<u>11,694</u>	<u>2,030</u>	<u>8,718</u>	<u>149,247</u>
Income (loss) from operations.....	(50,517)	1,250	(2,030)	2,204	(49,093)
Other income and interest expense, net.....	8,132	(73)	--	(306)	7,753
Minority interests.....	(238)	--	--	(914)	(1,152)
Income taxes.....	(1,041)	(1)	--	191	(851)
Net income (loss).....	<u>\$ (43,664)</u>	<u>\$ 1,176</u>	<u>\$ (2,030)</u>	<u>\$ 1,175</u>	<u>\$ (43,343)</u>
Total assets.....	<u>\$ 161,855</u>	<u>\$ 13,323</u>	<u>\$ 30</u>	<u>\$ 20,848</u>	<u>\$ 196,056</u>
Purchases of long-lived assets.....	<u>\$ 3,652</u>	<u>\$ 1,390</u>	<u>\$ 30</u>	<u>\$ 9,462</u>	<u>\$ 14,534</u>

<u>YEAR ENDED MAY 31, 2002</u>	<u>REFRACTIVE</u>	<u>OTHER</u>	<u>TOTAL</u>
Revenues.....	\$ 115,908	\$ 18,843	\$ 134,751
Expenses:			
Doctors' compensation.....	10,225	--	10,225
Operating.....	111,708	13,856	125,564
Depreciation expense.....	10,143	860	11,003
Amortization of intangibles.....	9,897	452	10,349
Research and development.....	--	2,000	2,000
Impairment of intangibles including transitional.....	84,879	12,015	96,894
Write-down in the fair value of investments.....	24,066	2,016	26,082
Reduction in the carrying value of fixed assets.....	2,553	--	2,553
Restructuring, severance and other charges.....	8,750	--	8,750
	<u>262,221</u>	<u>31,199</u>	<u>293,420</u>
Loss from operations.....	(146,313)	(12,356)	(158,669)
Other income and interest expense, net.....	(735)	(26)	(761)
Minority interests.....	(225)	(410)	(635)
Income taxes.....	(745)	(1,039)	(1,784)
Net loss.....	<u>\$ (148,018)</u>	<u>\$ (13,831)</u>	<u>\$ (161,849)</u>
Total assets.....	<u>\$ 223,472</u>	<u>\$ 22,043</u>	<u>\$ 245,515</u>
Purchases of long-lived assets.....	<u>\$ 2,707</u>	<u>\$ 620</u>	<u>\$ 3,327</u>

The Company's geographic segments are as follows:

<u>YEAR ENDED DECEMBER 31, 2004</u>	<u>CANADA</u>	<u>UNITED STATES</u>	<u>TOTAL</u>
Revenues.....	\$ 12,596	\$ 229,599	\$ 242,195
Doctors' compensation.....	1,948	26,362	28,310
Net revenue after doctors' compensation.....	<u>\$ 10,648</u>	<u>\$ 203,237</u>	<u>\$ 213,885</u>
Total fixed assets and intangibles.....	<u>\$ 9,825</u>	<u>\$ 108,288</u>	<u>\$ 118,113</u>

<u>YEAR ENDED DECEMBER 31, 2003</u>	<u>CANADA</u>	<u>UNITED STATES</u>	<u>TOTAL</u>
Revenues.....	\$ 10,109	\$ 185,571	\$ 195,680
Doctors' compensation.....	1,660	8,974	10,634
Net revenue after doctors' compensation.....	<u>\$ 8,449</u>	<u>\$ 176,597</u>	<u>\$ 185,046</u>
Total fixed assets and intangibles.....	<u>\$ 10,765</u>	<u>\$ 117,914</u>	<u>\$ 128,679</u>

<u>SEVEN-MONTH PERIOD ENDED DECEMBER 31, 2002</u>	<u>CANADA</u>	<u>UNITED STATES</u>	<u>TOTAL</u>
Revenues.....	\$ 5,588	\$ 94,566	\$ 100,154
Doctors' compensation.....	1,424	5,099	6,523
Net revenue after doctors' compensation.....	<u>\$ 4,164</u>	<u>\$ 89,467</u>	<u>\$ 93,631</u>
Total fixed assets and intangibles.....	<u>\$ 11,258</u>	<u>\$ 116,768</u>	<u>\$ 128,026</u>

<u>YEAR ENDED MAY 31, 2002</u>	<u>CANADA</u>	<u>UNITED STATES</u>	<u>TOTAL</u>
Revenues.....	\$ 13,208	\$ 121,543	\$ 134,751
Doctors' compensation	1,260	8,965	10,225
Net revenue after doctors' compensation.....	<u>\$ 11,948</u>	<u>\$ 112,578</u>	<u>\$ 124,526</u>
Total fixed assets and intangibles	<u>\$ 12,156</u>	<u>\$ 141,682</u>	<u>\$ 153,838</u>

19. FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values because of the short-term maturities of these instruments.

The fair value of the Company's auction rate securities equals cost due to the short time period between the reset dates for the interest rates. The Company's held-to-maturity short-term investments are bank certificates of deposit for which cost approximates fair market value.

Given the large number of individual long-term debt instruments and capital lease obligations held by the Company, it is not practicable to determine fair value.

20. RESTRUCTURING AND OTHER CHARGES

The following table details restructuring charges recorded during the year ended December 31, 2004:

	<u>RESTRUCTURING CHARGES</u>	<u>CASH PAYMENTS</u>	<u>ACCRUAL BALANCE AS OF DECEMBER 31, 2004</u>
Severance	\$ 2,557	\$ (1,057)	\$ 1,500
Lease commitments, net of sub lease income	13	--	13
Total restructuring charges.....	<u>\$ 2,570</u>	<u>\$ (1,057)</u>	<u>\$ 1,513</u>

The Company recorded a total charge of \$2.8 million during the year ended December 31, 2004 consisting of a \$2.6 million charge for severance payments to two officers under the terms of employment contracts and a \$0.2 million charge related to ongoing lease payment obligations at closed centers. Of the \$0.2 million charge that related to closed centers, \$13,000 related to a center closing in 2004 while the remaining balance related to adjustments to accruals for centers closed in previous years. The remaining severance payments are expected to be paid out within the next twelve months, while the lease costs will be paid out over the remaining terms of the leases.

The following table details restructuring charges recorded during the year ended December 31, 2003:

	<u>RESTRUCTURING CHARGES</u>	<u>CASH PAYMENTS</u>	<u>NON-CASH ADJUSTMENTS</u>	<u>ACCRUAL BALANCE AS OF DECEMBER 31, 2003</u>	<u>CASH PAYMENTS</u>	<u>NON-CASH ADJUSTMENTS</u>	<u>ACCRUAL BALANCE AS OF DECEMBER 31 2004</u>
Severance	\$ 360	\$ (194)	\$ --	\$ 166	\$ (166)	\$ --	\$ --
Lease commitments, net of sublease income	864	(256)	--	608	(525)	(18)	65
Write-down of fixed assets	370	--	(370)	--	--	--	--
Prepaid expense and investment charges	507	(200)	(307)	--	--	--	--
Laser commitments	180	(180)	--	--	--	--	--
Total restructuring charges	<u>\$ 2,281</u>	<u>\$ (830)</u>	<u>\$ (677)</u>	<u>\$ 774</u>	<u>\$ (691)</u>	<u>\$ (18)</u>	<u>\$ 65</u>

The Company recorded \$2.0 million of net restructuring charges during the year ended December 31, 2003 related to the closure of six centers and the elimination of 29 full-time positions at those centers. The net charge consists of \$2.3 million primarily relating to the center closings offset by the reversal into income of \$0.3 million of restructuring charges related to prior year accruals that were no longer needed as of December 31, 2003. All restructuring costs will be financed through the Company's cash and cash equivalents. A total of \$0.7 million of this provision related to non-cash costs associated with writing off fixed assets, prepaid expenses and

investments. All costs have been paid out as of December 31, 2004, except lease costs which will be paid out over the remaining term of the leases.

The following table details restructuring and other charges incurred for the transitional period ended December 31, 2002:

	<u>RESTRUCTURING CHARGES</u>	<u>CASH PAYMENTS</u>	<u>NON-CASH ADJUSTMENTS</u>	<u>ACCRUAL BALANCE AT DECEMBER 31, 2003</u>	<u>CASH PAYMENTS</u>	<u>NON-CASH ADJUSTMENTS</u>	<u>ACCRUAL BALANCE AT DECEMBER 31 2004</u>
Severance	\$ 1,120	\$ (1,047)	\$ (73)	\$ --	\$ --	\$ --	\$ --
Lease commitments, net of sublease income	978	(420)	(221)	337	(240)	166	263
Write-down of fixed assets	2,266	--	(2,266)	--	--	--	--
Sale of center to third party	342	(7)	(335)	--	--	--	--
Total restructuring charges	<u>\$ 4,706</u>	<u>\$ (1,474)</u>	<u>\$ (2,895)</u>	<u>\$ 337</u>	<u>\$ (240)</u>	<u>\$ 166</u>	<u>\$ 263</u>

During the transitional period 2002, the Company recorded a \$4.2 million of net restructuring charges for the closure of 13 centers and the elimination of 36 full-time equivalent positions primarily at the Company's Toronto headquarters. The net charge consists of \$4.7 million primarily related to center closings and the corporate reorganization, offset by the reversal into income of \$0.5 million of restructuring charges related to prior year accruals that were no longer needed as of December 31, 2002. All restructuring costs will be financed through the Company's cash and cash equivalents. A total of \$2.3 million of this provision related to non cash costs of writing down fixed assets. All costs have been paid out as of December 31, 2004, except lease costs which will be paid out over the remaining term of the leases.

The following table details restructuring and other charges incurred for the year ended May 31, 2002:

	<u>RESTRUCTURING CHARGES</u>	<u>CASH PAYMENTS</u>	<u>NON-CASH ADJUSTMENTS</u>	<u>ACCRUAL BALANCE AT DECEMBER 31, 2003</u>	<u>CASH PAYMENTS</u>	<u>NON-CASH ADJUSTMENTS</u>	<u>ACCRUAL BALANCE AT DECEMBER 31 2004</u>
Severance	\$ 2,907	\$ (2,473)	\$ (434)	\$ --	\$ --	\$ --	\$ --
Lease commitments, net of sublease income	2,765	(1,826)	50	989	(569)	528	948
Termination costs of doctors contracts	146	(146)	--	--	--	--	--
Laser commitments	652	(300)	(352)	--	--	--	--
Write-down of fixed assets	2,280	--	(2,280)	--	--	--	--
Total restructuring and other charges.....	<u>\$ 8,750</u>	<u>\$ (4,745)</u>	<u>\$ (3,016)</u>	<u>\$ 989</u>	<u>\$ (569)</u>	<u>\$ 528</u>	<u>\$ 948</u>

During fiscal 2002, the Company implemented a restructuring program to reduce employee costs in line with current revenue levels, close certain underperforming centers and eliminate duplicate functions caused by the merger with LaserVision. This program eliminated 110 full-time equivalent positions and closed 10 centers, resulting in a total cost of \$8.8 million. The lease costs will be paid out over the remaining term of the leases.

21. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash transactions:

	YEAR ENDED DECEMBER 31,		SEVEN-MONTH PERIOD ENDED DECEMBER 31,	YEAR ENDED MAY 31,
	2004	2003	2002	2002
Debt and capital lease obligations relating to equipment purchases	\$ 2,579	\$ 8,493	\$ 1,396	\$ --
Option and warrant reduction.....	5,379	2,892	720	--
Issuance of stock upon meeting certain earnings criteria	389	--	--	60
Retirement of treasury stock	--	2,432	--	--
Treasury stock arising from acquisition	--	--	--	2,432
Treasury stock to employee benefit plan.....	--	191	--	--
Issuance of options/stock as remuneration.....	--	--	--	222
Capital stock issued for acquisitions	--	96	--	111,058
Issuance of options arising from acquisition.....	--	--	--	11,001

Cash paid for the following:

	YEAR ENDED DECEMBER 31,		SEVEN-MONTH PERIOD ENDED DECEMBER 31,	YEAR ENDED MAY 31,
	2004	2003	2002	2002
Interest	<u>\$ 2,133</u>	<u>\$ 2,618</u>	<u>\$ 830</u>	<u>\$ 1,693</u>
Income taxes.....	<u>\$ 835</u>	<u>\$ 533</u>	<u>\$ 595</u>	<u>\$ 1,382</u>

22. RELATED PARTY TRANSACTIONS

On March 1, 2001, a limited liability company wholly owned by TLC*Vision* acquired all of the non medical assets relating to the refractive practice of Dr. Mark Whitten prior to Dr. Whitten becoming a director of TLC*Vision*. The cost of this acquisition was \$20.0 million, with \$10.0 million paid in cash on March 1, 2001 and the remaining \$10.0 million payable in four equal non-interest bearing installments on each of the first four anniversary dates of closing. Dr. Whitten was a director of TLC*Vision* from May 2002 to May 2003. At December 31, 2004 the remaining discounted amounts payable to Dr. Whitten of \$2.3 million (\$4.4 million at December 31, 2003) are reported as current maturities of long-term debt. (See Note 11, "Long-Term Debt"). In addition, TLC*Vision* has entered into service agreements with companies that own Dr. Whitten's refractive satellite operations located in Frederick, Maryland, and Charlottesville, Virginia, under which TLC*Vision* will provide such companies with services in return for a fee. During the years ended December 31, 2004 and 2003, the seven-month period ended December 31, 2002 and the year ended May 2002, the Company received revenue from these service agreements of \$0.9 million, \$0.7 million, \$0.3 million and \$0.8 million, respectively.

LaserVision, a subsidiary of TLC*Vision*, had a limited partnership agreement with Minnesota Eye Consultants for the operation of one of its Roll-On/Roll-Off mobile systems. Dr. Richard Lindstrom, a director of TLC*Vision*, is president of Minnesota Eye Consultants. LaserVision is the general partner and owns 60% of the partnership. Minnesota Eye Consultants, P.A. is a limited partner and owns 40% of the partnership. Under the terms of the partnership agreement, LaserVision received a revenue-based management fee from the partnership until this unit was retired in 2003. Subsequent to the acquisition of LaserVision, the Company received \$0, \$48,000 and \$21,000 in management fees from the partnership for the years ended December 31, 2004 and 2003 and the transitional period ended December 31, 2002, respectively. Dr. Lindstrom also receives compensation from TLC*Vision* in his capacity as medical director of TLC*Vision* and LaserVision and as a consultant to MSS, a cataract service provider.

In September 2000, LaserVision entered into a five-year agreement with Minnesota Eye Consultants to provide laser access. LaserVision paid \$6.2 million to acquire five lasers and the exclusive right to provide laser access to Minnesota Eye Consultants. LaserVision also assumed leases on three of the five lasers acquired. The transaction resulted in a \$5.0 million intangible asset recorded as deferred contract rights which will be amortized over the life of the agreement. Subsequent to the acquisition of LaserVision, the Company received revenue of \$1.4 million, \$1.2 million and \$0.6 million as a result of the agreement for the years ended December 31, 2004 and 2003 and the transitional period ended December 31, 2002, respectively.

During fiscal 2002, J.L. Investments, Inc., of which Mr. Warren Rustand, a director of *TLCVision*, is a shareholder, and Mr. Warren Rustand entered into a consulting agreement with the Company to oversee the development of the Company's international business development project. J.L. Investments and Mr. Rustand received a total of \$125,000 under this agreement which was paid in 2002.

In May 2002, John J. Klobnak, a former director of the Company and the former Chief Executive Officer of LaserVision, was paid \$2.9 million and received 500,000 *TLCVision* stock options in a severance arrangement in connection with the LaserVision acquisition.

Elias Vamvakas, Dr. Richard Lindstrom, and Thomas Davidson, all directors of the Company, also serve as directors of Occulogix. Mr. Vamvakas also serves as the Executive Chairman and Chief Executive Officer of Occulogix. The board of directors of Occulogix granted Mr. Vamvakas stock options to purchase 4,583 shares of common stock at an exercise price of \$1.30 per share. These stock options are fully vested and exercisable. In addition, the board granted Mr. Vamvakas stock options to purchase 500,000 shares of common stock at an exercise price of \$0.99 per share. These stock options were to vest and become exercisable over a three year period but became fully vested upon the successful completion of the Occulogix IPO in December 2004. Dr. Lindstrom and Mr. Davidson each received options to purchase 25,000 shares of common stock at an exercise price of \$12.00 per share in 2004 in conjunction with the Occulogix IPO. The options issued to Dr. Lindstrom and Mr. Davidson vest over three years and expire ten years from the date of grant. Dr. Lindstrom and Mr. Davidson received \$9,000 and \$16,000, respectively, for the year ended December 31, 2004 as cash compensation for service as outside directors of Occulogix.

Dr. William David Sullins, Jr., a former director of the Company, served as an outside director of Occulogix until 2004. For the years ended December 31, 2004 and 2003, Dr. Sullins received \$15,000 and \$10,000 respectively as cash compensation for service as an outside director. The board of directors of Occulogix granted Dr. Sullins stock options to purchase 4,583 shares of common stock at an exercise price of \$1.30 per share. These stock options are fully vested and exercisable. The board also granted Dr. Sullins stock options to purchase 25,000 shares of common stock at an exercise price of \$0.99 per share. These stock options were to vest and become exercisable over a three year period but became fully vested upon the successful completion of the Occulogix IPO.

During the years ended December 31, 2004 and 2003, the seven-month period ended December 31, 2002, and the year ended May 31, 2002, the law firm Gourwitz and Barr, P.C., of which Mr. Gourwitz, a director of the Company until May 2003, provided legal services to *TLCVision* and was paid \$47,000, \$87,000, \$98,000 and \$95,000, respectively.

Included in accrued liabilities as of December 31, 2004, is \$100,000 due to Apheresis Technologies, Inc. (ATI), a company controlled by certain stockholders of OccuLogix. As a result of amending a distribution services agreement between ATI and OccuLogix, OccuLogix agreed to pay ATI \$100,000 so that it would have the sole discretion as to when the agreement would terminate.

On September 29, 2004, OccuLogix signed a product purchase agreement with Rheo Therapeutics Inc. (an Ontario, Canada corporation) for the purchase from OccuLogix of 8,004 treatment sets over the period from October 2004 to December 2005, a transaction valued at \$6.0 million, after introductory rebates. Subject to availability, the purchaser may order up to an additional 2,000 treatment sets. Dr. Machat, who is an investor in and one of the directors of Rheo Therapeutics Inc. was a co-founder and former director of *TLCVision*. As of December 31, 2004, Rheo Therapeutics Inc. had purchased 660 treatment sets and 2 pumps. Included in amounts receivable as of December 31, 2004 is \$0.3 million due from Rheo Therapeutics Inc.

23. SUBSEQUENT EVENT

On March 1, 2005, the Company sold its interest in Aspen to National Surgical Centers, Inc.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by the report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no significant changes in the Company's internal controls over financial reporting that occurred during the quarter ended December 31, 2004, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on our assessment, we believe that, as of December 31, 2004, the Company's internal control over financial reporting is effective based on those criteria. However, management did not assess the effectiveness of the internal controls of OccuLogix, Inc., which is included in the Company's 2004 consolidated financial statements and constituted \$62.2 million and \$30.3 million of assets and net assets, respectively, as of December 31, 2004 and \$0.2 million and \$0.5 million of revenues and net loss, respectively, for the period from December 8, 2004 through December 31, 2004. Management did not assess the effectiveness of internal control over financial reporting at this entity because the Company did not have control of the entity until December 8, 2004 and therefore did not have time, in practice, to assess those controls.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004, has been audited by Ernst & Young, LLP, an independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting is included elsewhere herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of TLC Vision Corporation

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that TLC Vision Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). TLC Vision Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of OccuLogix, Inc., which is included in the 2004 consolidated financial statements of TLC Vision Corporation and constituted \$62.2 million and \$30.3 million of assets and net assets, respectively, as of December 31, 2004 and \$0.2 million and \$0.5 million of revenues and net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of TLC Vision Corporation also did not include an evaluation of the internal control over financial reporting of OccuLogix, Inc.

In our opinion, management's assessment that TLC Vision Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, TLC Vision Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of TLC Vision Corporation as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the two years in the period ended December 31, 2004, the seven-month period ended December 31, 2002, and the year ended May 31, 2002 of TLC Vision Corporation and our report dated March 11, 2005 expressed an unqualified opinion thereon.

St. Louis Missouri
March 11, 2005

/s/ ERNST & YOUNG LLP

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 is incorporated by reference to the Company's definitive proxy statement to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2004.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference to the Company's definitive proxy statement to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2004.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 is hereby incorporated by reference to the Company's definitive proxy statement to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2004.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is hereby incorporated by reference to the Company's definitive proxy statement to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2004.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 is hereby incorporated by reference to the Company's definitive proxy statement to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2004.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of the report:

(1) Financial statements:

Report of Independent Registered Public Accounting Firm.

Consolidated Statements of Operations – Years Ended December 31, 2004 and 2003, transitional period ended December 31, 2002 and Year Ended May 31, 2002.

Consolidated Balance Sheets as of December 31, 2004 and 2003.

Consolidated Statements of Cash Flows – Years Ended December 31, 2004 and 2003, transitional period ended December 31, 2002 and Year Ended May 31, 2002.

Consolidated Statements of Stockholders' Equity – Years Ended December 31, 2004 and 2003, transitional period ended December 31, 2002 and Year Ended May 31, 2002.

Notes to Consolidated Financial Statements

(2) Financial statement schedules required to be filed by Item 8 and Item 15(d) of Form 10-K.

Schedule II - Valuation and Qualifying Accounts and Reserves

Except as provided below, all schedules for which provision is made in the applicable accounting regulations of the Commission either have been included in the consolidated financial statements or are not required under the related instructions, or are inapplicable and therefore have been omitted.

(3) Exhibits required by Item 601 of Regulation S-K and by Item 14(c).

See Exhibit Index.

(b) Exhibits required by Item 601 of Regulation S-K.

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

TLC VISION CORPORATION

By /s/ JAMES C. WACHTMAN
James C. Wachtman, Chief Executive Officer

March 11, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATED</u>
<u>/s/ JAMES C. WACHTMAN</u> James C. Wachtman	Chief Executive Officer and Director	March 11, 2005
<u>/s/ STEVEN P. RASCHE</u> Steven P. Rasche	Chief Financial Officer and Treasurer	March 11, 2005
<u>/s/ ELIAS VAMVAKAS</u> Elias Vamvakas	Chairman of the Board of Directors	March 11, 2005
<u>/s/ THOMAS N. DAVIDSON</u> Thomas N. Davidson	Director	March 11, 2005
<u>/s/ WARREN S. RUSTAND</u> Warren S. Rustand	Director	March 11, 2005
<u>/s/ RICHARD L. LINDSTROM, M.D.</u> Richard L. Lindstrom, M.D.	Director	March 11, 2005
<u>/s/ TOBY S. WILT</u> Toby S. Wilt	Director	March 11, 2005

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	<u>BALANCE AT BEGINNING OF PERIOD</u>	<u>EXPENSE PROVISION</u>	<u>OTHER(1)</u>	<u>DEDUCTIONS- UNCOLLECTABLE A MOUNTS</u>	<u>BALANCE AT END OF PERIOD</u>
	(in thousands)				
Fiscal 2002					
Provision for contractual allowances and doubtful accounts receivable	\$ 1,160	\$ 521	\$ 1,742	\$ (896)	\$ 2,527
Provision against investments and other assets	1,913	2,016	--	--	3,929
Deferred tax asset valuation allowance	30,429	31,360	44,562	--	106,351
Transitional Period 2002					
Provision for contractual allowances and doubtful accounts receivable	\$ 2,527	\$ 213	\$ --	\$ (312)	\$ 2,428
Provisions against investments and other assets	3,929	194	--	--	4,123
Deferred tax asset valuation allowance	106,351	14,551	--	--	120,902
Fiscal 2003					
Provision for contractual allowances and doubtful accounts receivable	\$ 2,428	\$ 207	\$ --	\$ (52)	\$ 2,583
Provision against investments and other assets	4,123	46	(651)	--	3,518
Deferred tax asset valuation allowance	120,902	1,929	--	--	122,831
Fiscal 2004					
Provision for contractual allowances and doubtful accounts receivable	\$ 2,583	\$ 124	\$ --	\$ (380)	\$ 2,327
Provision against investments and other assets	3,518	--	(1,206)	--	2,312
Deferred tax asset valuation allowance	122,831	(16,337)	25,617	--	132,111

Note (1): Additional provisions for contractual allowances and doubtful accounts and deferred tax asset valuation allowances were acquired in the merger transaction with LaserVision. During fiscal 2003, the Company adjusted a portion of the provision for contractual allowances and doubtful accounts due to improved financial strength of the borrower, a secondary care service provider of which the Company owns approximately 25% of the outstanding shares, and a consistent pattern of timely payments that the borrower has made related to the note receivable held by the Company. The Company reversed the remainder of the reserve in fiscal 2004 due to consistent payment history and continually improving financial strength of the debtor. Additional deferred tax asset valuation allowance of \$16,094 related to acquisition of deferred tax assets of OccuLogix for which there was a valuation allowance. Remaining \$9,523 was the effect of stock-based compensation and prior year return-to-provision adjustments.

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's 10-K filed with the Commission on August 28, 1998)
3.2	Articles of Amendment (incorporated by reference to Exhibit 3.2 to the Company's 10-K filed with the Commission on August 29, 2000)
3.3	Articles of Continuance (incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form S-4/A filed with the Commission on March 1, 2002 (file no. 333-71532))
3.4	Articles of Amendment (incorporated by reference to Exhibit 4.2 to the Company's Post Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-4 filed with the Commission on May 14, 2002 (file no. 333-71532))
3.5	By-Laws of the Company (incorporated by reference to Exhibit 3.6 to the Company's Registration Statement on Form S-4/A filed with the Commission on March 1, 2002 (file no. 333-71532))
4.1	Shareholder Rights Plan Agreement dated March 4, 2005 between the Company and CIBC Mellon Trust Company (incorporated by reference to Exhibit A to the Company's Registration Statement on Form 8-A filed with the Commission on March 14, 2005 (file no. 000-29302))
10.1*	TLC Vision Corporation Amended and Restated Share Option Plan (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 filed with the Commission on June 23, 2004 (file no. 333-116769))
10.2*	TLC Corporation 2004 Employee Share Purchase Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed with the Commission on June 23, 2004 (file no. 333-116769))
10.3*	Employment Agreement with Elias Vamvakas (incorporated by reference to Exhibit 10.1(e) to the Company's 10-K filed with the Commission on August 28, 1998)
10.4	Escrow Agreement with Elias Vamvakas and Jeffery J. Machat (incorporated by reference to Exhibit 10.1(f) to the Company's 10-K filed with the Commission on August 28, 1998)
10.5	Consulting Agreement with Excimer Management Corporation (incorporated by reference to Exhibit 10.1(g) to the Company's 10-K filed with the Commission on August 28, 1998)
10.6	Shareholder Agreement for Vision Corporation (incorporated by reference to Exhibit 10.1(l) to the Company's 10-K filed with the Commission on August 28, 1998)
10.7*	Employment Agreement with William Leonard (incorporated by reference to Exhibit 10.1(n) to the Company's 10-K filed with the Commission on August 29, 2000)
10.8*	Consulting Agreement with Warren Rustand (incorporated by Reference to Exhibit 10.10 to the Company's Amendment No. 2 registration Statement on Form S-4/A filed with the Commission on January 18, 2002 (file no. 333-71532))
10.9*	Employment Agreement with Paul Frederick (incorporated by reference to Exhibit 10.10 to the Company's 10-K for the year ended May 31, 2002)
10.10*	Employment Agreement with James C. Wachtman dated May 15, 2002 (incorporated by reference to Exhibit 10.13 to the Company's 10-K for the year ended May 31, 2002)
10.11*	Employment Agreement with Robert W. May dated May 15, 2002 (incorporated by reference to Exhibit 10.14 to the Company's 10-K for the year ended May 31, 2002)
10.12*	Amendment to Employment Agreement with Robert W. May dated September 30, 2003 (incorporated by reference to Exhibit 10.12 to the Company's 10-K for the year ended December 31, 2003)
10.13*	Employment Agreement with B. Charles Bono dated May 15, 2002 (incorporated by reference to Exhibit 10.15 to the Company's 10-K for the year ended May 31, 2002)
10.14*	Amendment to Employment Agreement with B. Charles Bono dated September 30, 2003 (incorporated by reference to Exhibit 10.14 to the Company's 10-K for the year ended December 31, 2003)
10.15*	Supplemental Employment Agreement with John J. Klobnak dated May 15, 2002 (incorporated by reference to Exhibit 10.16 to the Company's 10-K for the year ended May 31, 2002)
10.16*	Severance Agreement with Elias Vamvakas dated October 25, 2004
10.17*	Employment Agreement with Steve Rasche dated July 1, 2004

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
10.18*	Employment Agreement with Brian Andrew dated December 31, 2004
21	List of the Company's Subsidiaries
23	Consent of Independent Registered Public Accounting Firm
31.1	CEO's Certification required by Rule 13A-14(a) of the Securities Exchange Act of 1934.
31.2	CFO's Certification required by Rule 13A-14(a) of the Securities Exchange Act of 1934.
32.1	CEO's Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, U.S.C. Section 1350
32.2	CFO's Certification of periodic financial report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, U.S.C. Section 1350
99	Reconciliation between Canadian and United States Generally Accepted Accounting Principles

* Management contract or compensatory plan arrangement.

SEVERANCE AGREEMENT

This Severance Agreement (the "Agreement") is made this 25 day of October, 2004 by and between TLC Vision Corporation (the "Corporation"), a corporation organized under the laws of the Province of New Brunswick and Elias Vamvakas (the "Executive"), an individual and resident of the Province of Ontario.

Whereas, pursuant to an Employment Agreement (the "Employment Agreement") dated January 1, 1996 (as amended August 14, 1998; January 1, 2001; January 21, 2002 and May 13, 2002) Executive has been employed by the Corporation as its Chief Executive Officer; and

Whereas, the Corporation and the Executive deem it to be in their mutual interest for the Executive to relinquish his role as Chief Executive Officer of the Corporation in order to assume the position of Chief Executive Officer of OccuLogix Inc., an affiliate of the Corporation, subject to the terms of this Agreement.

Now therefore, the parties hereby agree as follows:

1. **Resignation of Executive.** Executive hereby resigns as Chief Executive Officer of the Corporation, effective August 13, 2004. Executive shall receive his regular compensation through August 31, 2004 and shall be entitled to his bonus as set forth in the Employment Agreement, as amended, which shall be prorated for the months of January through August 2004.
2. **Termination of Employment Agreement.** The Employment Agreement, as amended, is hereby terminated as of August 13, 2004 with the exception that Executive shall continue to be bound by the provisions of Sections 11,12,13,14 and 15 of the Employment Agreement.
3. **Continued Service as Chairman of the Board.** Executive shall, subject to the continued approval of the Board of Directors, continue to serve as Chairman of the Board of the Corporation.
4. **Compensation as Chairman.** For his service as Chairman of the Board, Executive shall be compensated US\$100,000 per annum, subject to any applicable taxes and withholdings.
5. **Guarantee of Severance.** The Corporation and OccuLogix shall enter into an agreement to guarantee a severance benefit to Executive as follows:
 - a. In the event Executive's employment with OccuLogix is terminated without just cause at any time prior to August 31, 2006 and OccuLogix is unable to provide Executive with a severance benefit at least equal to that which Executive would have received pursuant to Section 10(c) of the Employment Agreement, the Corporation shall guarantee payment of Executive's entire severance.
 - b. In the event Executive's employment with OccuLogix is terminated without just cause at any time between September 1, 2006 and August 31, 2008 and OccuLogix is unable to provide Executive with a severance benefit at least equal to that which Executive would have received pursuant to Section 10(c) of the Employment Agreement, the Corporation shall guarantee payment of a pro-rata portion of Executive's severance declining ratably on a monthly basis between September 1, 2006 and August 31, 2008.
6. **Headings.** The inclusion of headings in this Agreement is for convenience of reference only and is not to affect the construction or interpretation hereof.
7. **Invalidity of Provisions.** Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any provision by a court of competent jurisdiction will not affect the validity or enforceability of any other provision hereof.
8. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties pertaining to the subject matter of this Agreement. This Agreement supersedes and replaces all prior agreements, written or oral, with respect to the Executive's employment by the Corporation and any rights which the Executive may have by reason of any such prior agreement or by reason of the Executive's prior employment by the Corporation. There are no warranties, representations or agreements between the parties in connection with the subject matter of this Agreement except as specifically set forth or

referred to in this Agreement. No reliance is placed on any representations, opinion, advice or assertion of fact made by the Corporation or its directors, officers and agents to the Executive, except to the extent that the same has been reduced to writing and included as a term of this Agreement. Accordingly, there will be no liability, either in tort or in contract, assessed in relation to any such representation, opinion, advice or assertion of fact, except to the extent aforesaid.

9. **Waiver, Amendment.** Except as expressly provided in this Agreement, no amendment or waiver of this Agreement will be binding unless executed in writing by the party to be bound thereby. No waiver of any provision of this Agreement will constitute a waiver of any other provision nor will any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.
10. **Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the Province of Ontario.
11. **Counterparts.** This Agreement may be signed in counterparts. Each counterpart will constitute an original document and all counterparts, taken together, will constitute one and the same instrument. Executed counterparts may be delivered by telecopier.

In witness whereof, the parties hereto have executed this Severance Agreement as of the 25 day of October, 2004.

/s/Elias Vamvakas
Elias Vamvakas

/s/Robert May
Robert May,
General Counsel

/s/Tina Moroney
Tina Moroney,
Witness

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the first day of July 2004 between TLC Vision Corporation, a New Brunswick corporation (the "Corporation"), and Steven P. Rasche, who resides at 12442 Cinema Lane, St. Louis, MO 63127 (the "Employee").

WHEREAS, the Corporation and the Employee wish to enter into this Agreement to set forth the rights and obligations of each of them with respect to the Employee's employment with the Corporation;

NOW, THEREFORE, in consideration of the mutual covenants and undertakings contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Corporation and the Employee agree as follows:

1. Definitions

1.1. In this Agreement,

1.1.1. "**Affiliate**" has the meaning set forth in Section 5001 of the Delaware Code as the same may be amended from time to time, and any successor legislation thereto;

1.1.2. "**Agreement**" means this agreement and all schedules attached to this agreement, in each case as they may be amended or supplemented from time to time, and the expressions "hereof," "herein," "hereto," "hereunder," "hereby" and similar expressions refer to this agreement and unless otherwise indicated, references to sections are to sections in this agreement;

1.1.3. "**Salary**" has the meaning attributed to such term in section 5.1;

1.1.4. "**Benefits**" has the meaning attributed to such term in section 5.4;

1.1.5. "**Business Day**" means any day, other than Saturday, Sunday or any holiday on which the employees of the Corporation are not required to report for work;

1.1.6. "**Change of Control**" for the purposes of this Agreement shall be deemed to have occurred when:

1.1.6.1. any Person acquires or becomes the beneficial owner of, or a combination of Persons acting jointly and in concert acquires or becomes the beneficial owner of, directly or indirectly, more than 40% of the voting securities of the Corporation, whether through the acquisition of previously issued and outstanding voting securities, or of voting securities that have not been previously issued, or any combination thereof, or any other transaction having a similar effect; such percentage being determined on a undiluted basis without regard to options and warrants then outstanding and unexercised;

1.1.6.2. the Corporation amalgamates with one or more corporations other than a Subsidiary or Affiliate;

1.1.6.3. the Corporation sells, leases or otherwise disposes of all or substantially all of its assets, whether pursuant to one or more transactions;

1.1.6.4. any Person not part of existing management of the Corporation or any Person not controlled by the Corporation or by any Affiliate enters into any arrangement to provide management services to the Corporation which results in either (i) the termination by the Corporation of the employment of any two of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and General Counsel for any reason other than Just Cause; or (ii) the termination by the Corporation for any reason other than Just Cause of the employment of all such senior executive personnel within six months of the date that such arrangement is entered into;

1.1.6.5. the Corporation enters into any transaction or arrangement which would have the same or similar effect as the transactions referred to in sections 1.1.6.1, 1.1.6.2, 1.1.6.3 or 1.1.6.4 above.

Nevertheless, the Corporation's merger with TLC Laser Eye Centers, Inc. shall not be considered a Change of Control for purposes of this Agreement and Employee shall have no rights and the Corporation shall have no obligation to Employee under Section 10 because of such merger.

- 1.1.7. **"Confidential Information"** means all confidential or proprietary information, intellectual property (including but not limited to trade secrets, customer lists, projections, business plans) and confidential facts relating to the business or affairs of the Corporation or any of its Affiliates or Subsidiaries which is treated as confidential or proprietary;
- 1.1.8. **"Disability"**
 - 1.8.1.1 Employee shall be deemed permanently disabled if (a) Employee is unable to provide the Corporation with at least thirty (30) hours per week of normal effective work time during a continuous six (6) month period and (b) if at the expiration of said six (6) month period, insofar as can be reasonably foreseen, Employee will thereafter be unable to give at least thirty (30) hours per week of normal effective working time.
 - 1.8.1.2 Until the expiration of the six (6) month period of disability, Employee shall be entitled to received his regularly established salary and bonus, less any monthly disability income insurance payments.
 - 1.8.1.3 In the event the parties hereto are unable to agree on the existence of a disability or the date on which the aforesaid six (6) month period of disability began, the Corporation and Employee shall each designate a physician and the two physicians so designated shall then select a third physician, which third physician shall then determine whether a permanent disability exists within the meaning of this Agreement and when the disability commenced if it does exist. The determination of the said third physician shall bind the parties hereto. For convenience of determining the rights of the parties under this provision, a permanent disability shall be deemed to begin on the first day of the month which immediately follows the date on which the disability actually occurred, or is judged by the aforesaid third physician to have occurred. If the said third physician determines that Employee is not capable of performing the services required of him hereunder, the Corporation shall have the right to require Employee to submit to additional periodic examinations (not to exceed one per month), at the Corporation's expense, by that physician for so long as Employee purports to be disabled.
 - 1.8.1.4 The foregoing to the contrary notwithstanding, in the event the Corporation terminates the employment of Employee due to the disability of Employee and if, after such termination and prior to the normal termination date of this Agreement (or any extension or renewal hereof) Employee is judged by the aforesaid third physician to be able to return to his normal duties, then the Corporation shall hire Employee as a consultant to the Corporation for the balance of the term of this Agreement (or any extension or renewal hereof), at Employee's salary as of the date of termination and subject to all other terms and conditions of this Agreement.
- 1.1.9. **"Employment Period"** has the meaning attributed to such term in section 4;
- 1.1.10. **"Good Reason"** means:
 - 1.1.10.1. a reduction of more than ten percent by the Corporation in the Employee's then current Salary (set forth in Section 5.1)
 - 1.1.10.2 the taking of any action by the Corporation which would materially and adversely affect the Employee's participation in, or materially reduce the Employee's Benefits and other similar plans in which the Employee is participating at the date hereof (or such other plans as may be implemented after the date hereof that provide the Employee with substantially similar benefits), or the taking of any action by the Corporation which would deprive the Employee of any material fringe benefit enjoyed by him at the date hereof unless such action by the Corporation affects all employees or reduces or deprives all or a majority of the Corporation's employees of benefits previously enjoyed.
 - 1.1.10.3 The Corporation relocates Employee's principal office outside the Greater St. Louis, Missouri area, which shall be defined as St. Louis, Jefferson, St. Charles and Franklin counties in Missouri and St. Clair and Madison counties in Illinois.

1.1.11. **“Just Cause”** shall mean that the Employee has been convicted of any crime involving larceny, embezzlement, conversion or any other act involving the misappropriation of Corporation funds in the course of his employment;

1.1.12. **“Person”** means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, limited liability company, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted;

1.1.13 **“Subsidiaries”** has the meaning attributed to such term by Section 5001 of the Delaware Code as the same may be amended from time to time and any successor legislation thereto;

1.1.14. **“Year of Employment”** means any 12 month period commencing on Effective Date (defined herein) or on any anniversary of such date.

2. Employment of the Employee

The Corporation shall employ the Employee, and the Employee shall serve the Corporation, in the position of V.P. of Finance on the conditions and for the remuneration hereinafter set out. Upon the earlier of the resignation of Chuck Bono or August 15, 2004, the Employee will serve as Chief Financial Officer and Treasurer. In such position, the Employee shall perform and fulfill such duties and responsibilities as the President of the Corporation or the Board of Directors may designate from time to time. The Employee shall report to the President of the Corporation or such other person or persons as designated by the Board of Directors from time to time. Employee shall perform his duties hereunder in the Greater St. Louis metropolitan area or at such other location or locations as are mutually agreed between Employee and the Corporation.

3. Performance of Duties

During the Employee’s employment, the Employee shall faithfully, honestly and diligently serve the Corporation and its Subsidiaries as contemplated above. The Employee shall devote all of his working time and attention to his employment hereunder and shall use his best efforts to promote the interests of the Corporation.

4. Employment Period

Subject to the terms and conditions hereinafter provided, the term of the Executive’s employment shall commence on July 1, 2004, with salary to begin effective July 14, 2004 (the “Effective Date”). Upon the Effective Date, the Executive’s employment shall continue for a term of two years unless and until sooner terminated under this Agreement (“Initial Term”). After the Initial Term, this Agreement shall continue for successive one-year terms (each year term referred to as an “Extension Term”) unless either party gives written notice to the other party of its intention to terminate this Agreement at least six (6) months prior to the end of the then current term.

5. Remuneration

5.1. **Salary.** The Corporation shall pay the Employee a base salary minus applicable deductions and withholdings, for each Year of Employment of this Agreement calculated at the rate of Two Hundred Ten Thousand Dollars (**\$210,000**) per annum (“Salary”), payable in equal installments according to the Corporation’s regular payroll practices. Subsequent to the initial year of employment under this Agreement, Employee’s salary may be increased, but shall not be reduced from the base amount paid to Employee during the previous year.

5.2 **Bonus Remuneration.** The Employee is eligible to receive a bonus equal to a maximum amount of 50% of the Employee’s Salary, less applicable deductions and withholdings. The payment of any bonus will be based on Employee’s performance within a specific area of responsibility and/or the Corporation achieving its financial objectives for the fiscal year; the amount of any such bonus and whether any bonus is earned shall be determined by the Corporation in its sole discretion. Any bonus earned shall be paid within sixty (60) days after the end of the Corporation’s fiscal year.

5.3. **Stock Options.** The Employee shall receive 50,000 stock options, subject to the terms and conditions of the Corporation’s Amended and Restated Share Option Plan.

5.4. **Benefits.** The Corporation shall provide to the Employee, in addition to Salary and stock options, if any, the benefits (the “Benefits”) described in the Corporation’s Employee Handbook, such Benefits to be provided in accordance

with and subject to the terms and conditions of the Handbook as such is amended from time to time. At a minimum, the Corporation will provide, at the Corporation's expense, a medical and dental plan for Employee and his spouse and dependents, as well as a life insurance policy and disability plan to protect the Employee's income. Employee shall also be covered under the Corporation's liability insurance policy for directors and officers under the same terms and conditions that apply to other directors and officers of the Corporation. In addition, the Corporation shall provide Employee, at the Corporation's sole expense, with a policy of life insurance to be owned by the Employee in a face amount of not less than \$500,000.

5.5. **Pro-Rata Entitlement in the Event of Termination.** If the Employee's employment is terminated pursuant to section 8 or if the Employee dies during a Year of Employment, the Employee shall be entitled to receive that portion of the Salary in respect of the Year of Employment representing the number of days the Employee actually worked and only any bonus earned prior to the termination of the Employee's employment.

6. **Expenses**

Subject to the terms of the Corporation's expense policy, as such may be revised from time to time, the Corporation shall pay, or reimburse the Employee for, all authorized and appropriate travel and out-of-pocket expenses reasonably incurred or paid by the Employee in the performance of his duties and responsibilities, upon presentation of expense statements and receipts and such other supporting documentation as the Corporation may reasonably require.

7. **Vacation**

The Employee shall be entitled during each Year of Employment to vacation with pay equal to the standard award offered to all employees plus one week (three weeks in the initial year of this Agreement); Employee's vacation shall accrue at the equal rate each month (1.250 days per month in the initial year of the Agreement) in accordance with the Corporation's policy. Vacation shall be taken by the Employee at such time(s) as may be acceptable to the Corporation. Except with the prior written consent of the President (i) no more than two weeks of vacation shall be taken consecutively, and (ii) no more than five days of the vacation entitlement earned in any Year of Employment can be carried forward to a subsequent Year of Employment. Notwithstanding the foregoing, in the event that the Employee's employment is terminated pursuant to this Agreement, the Employee shall not be entitled to receive any payment in lieu of any vacation to which he was entitled and which had not already been taken by him.

8. **Termination**

8.1. **Notice.** The Employee's employment may be terminated at any time:

8.1.1 by the Corporation without prior notice and without obligation to the Employee (i) for reasons of Just Cause; or (iii) Disability of Employee;

8.1.2. by the Corporation for any reason other than Just Cause, Disability of Employee or as set forth in Section 4.0;

8.1.3. by the Employee on one month written notice to the Corporation; or

8.1.4. by the Corporation as set forth in Section 4.0.

8.1.5 immediately by the Employee for Good Reason or in the event of a breach of this Agreement by Corporation; provided, however, Employee shall give notice to the Corporation of any such claimed breach or Good Reason and the Corporation shall have thirty (30) days from the date of receipt of such notice to cure any such claimed breach.

Notwithstanding the terms herein, the Employee's employment shall be automatically terminated, without further obligation to the Employee or his heirs, in the event of his death.

8.2. **Effective Date.** The effective date on which the Employee's employment shall be terminated shall be:

8.2.1. in the case of termination under section 8.1.1, the day the Employee is deemed, under section 17, to have received notice from the Corporation of such termination;

8.2.2.in the case of termination under section 8.1.2, on the date of the event giving rise to the termination;

8.2.3 in the case of termination under section 8.1.3, on the date one month after notice to the Corporation, provided the Corporation utilizes Employee's services during this one month after notice;

8.2.4.in the case of termination under section 8.1.4, on the date before the next anniversary of the Effective Date, provided the Employee provides services in accordance with this Agreement from the date of termination notice up to the date of termination;

8.2.5 in the case of termination under section 8.1.5, on the date, thirty (30) days from the date of receipt of said notice by Corporation; and

8.2.6 in the event of the death of the Employee, on the date of his death.

9. Rights of Employee on Termination and Payment

Where the Employee's employment under this Agreement has been terminated by the Corporation under sections 8.1.2 or section 8.1.5, the Employee shall be entitled, upon receipt by the Corporation of a waiver and release in a form acceptable to the Corporation, to receive from the Corporation, in addition to accrued but unpaid Salary, if any, a payment equal to twelve months Salary, less any amounts owing by the Employee to the Corporation for any reason and applicable deductions and withholdings, payable in one lump sum. Following the Initial Term of this Agreement, Employee shall earn an additional severance payment equal to one month of salary for each year of service, up to a maximum total of eighteen (18) months severance. In addition, Employee shall also continue to receive all health, dental and other benefits provided by the Corporation during any such "Severance Period". In the event such benefits are provided pursuant to COBRA, Employee's severance pay shall be "grossed up" to provide for payment of any applicable taxes.

Except as provided above in this section, where the Employee's employment has been terminated by the Employee or by the Corporation for any reason, the Employee shall not be entitled to receive any payment as severance pay, in lieu of notice, or as damages.

10. Change of Control

10.1. **Termination of Employment for Good Reason.** If at any time during this Agreement and within 12 months following a Change of Control, the Employee's employment is terminated by the Employee as a result of the Corporation taking actions which would materially and adversely affect Employee's duties under this Agreement, the Employee shall be entitled, upon receipt by the Corporation of a waiver and release in a form acceptable to the Corporation, to receive from the Corporation, a payment equal to twelve months Salary, less any amounts owing by the Employee to the Corporation for any reason and applicable deductions and withholdings, payable in twelve (12) equal monthly installments.

For greater certainty, this section 10.1 does not apply in the event of the termination of the employment of the Employee as a result of death, Disability or retirement of the Employee or by the Corporation for Just Cause or pursuant to Section 4.0, or by the Employee without Good Reason.

10.2 **Limitation on Payments Following a Change in Control.** Notwithstanding any other provision of this Agreement, if any payment to or for the benefit of the Employee under this Agreement either alone or together with other payments to or for the benefit of the Employee would constitute a "parachute payment" (as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")), the payments under this Agreement shall be reduced to the largest amount that will eliminate both the imposition of the excise tax imposed by Section 4999 of the Code and the disallowance of deductions to the Corporation under Section 280G of the Code for any such payments. The amount and method of any reduction in the payments under this Agreement pursuant to this Section 10.2 shall be as reasonably determined by the Compensation Committee of the Board of Directors of the Corporation.

11. No Obligation to Mitigate

The Employee shall not be required to mitigate the amount of any payment or Benefits provided for in this Agreement by seeking other employment or otherwise, nor (except as specifically provided herein) shall the amount of any payment provided for in

this Agreement be reduced by any compensation earned by the Employee as a result of employment by another employer after termination or otherwise.

12. Non-Competition

The Employee shall not, either during his employment and for a period of one year following the termination of Employee's employment, within the United States of America or Canada, directly or indirectly, in any manner whatsoever including, without limitation, either individually, or in partnership, jointly or in conjunction with any other Person, or as employee, principal, agent, director or shareholder:

12.1. be engaged in any undertaking related to refractive laser vision corrective surgery, cataract surgery or ophthalmic ambulatory surgery centers or any business conducted by the Corporation;

12.2. have any financial or other interest (including an interest by way of royalty or other compensation arrangements) in or in respect of the business of any Person which carries on a business of refractive laser corrective surgery, cataract surgery or ophthalmic ambulatory surgery centers or carries on any business conducted by the Corporation; or

12.3. advise, lend money to, guarantee the debts or obligations of or permit the use of the Employee's name or any parts thereof by any Person engaged in the refractive laser corrective surgery business, cataract surgery or ophthalmic ambulatory surgery centers or which competes or competed directly or indirectly with the Corporation or any of its Affiliates or Subsidiaries, during the Employee's employment or at the end thereof, as the case may be.

Notwithstanding the foregoing, nothing herein shall prevent the Employee from owning not more than 5% of the issued shares of a corporation, the shares of which are listed on a recognized stock exchange or traded in the over the counter market in Canada or the United States, which carries on a business which is the same as or substantially similar to or which competes with or would compete with the business of the Corporation or any of its Affiliates or Subsidiaries.

13. No Solicitation of Patients

The Employee shall not, either during his employment or for a period of one year thereafter ("Restricted Period"), directly or indirectly, contact or solicit any customers or patients of the Corporation or any of its Affiliates or Subsidiaries for the purpose of selling to those patients any products or services which are the same as or substantially similar to, or in any way competitive with, the refractive laser corrective surgery, cataract surgery or ophthalmic ambulatory surgery center products or services provided by the Corporation or any of its Affiliates or Subsidiaries during Employee's employment or at the end thereof, as the case may be. For the purpose of this section, a designated patient means a Person who was a patient of the Corporation or of any of its Subsidiaries during some part of Employee's employment.

14. No Solicitation of Employees

The Employee shall not, either during his employment or the Restricted Period, directly or indirectly, employ or retain as an independent contractor any employee of the Corporation or any of its Affiliates or Subsidiaries or induce or solicit, or attempt to induce, any such person to leave his/her employment.

15. Confidentiality

The Employee shall not, either during his employment or at any time thereafter, directly or indirectly, use or disclose to any Person any Confidential Information; provided, however, that nothing in this section shall preclude the Employee from disclosing or using Confidential Information if:

15.1. the Confidential Information is available to the public or in the public domain at the time of such disclosure or use, without breach of this Agreement; or

15.2. disclosure of the Confidential Information is required by law or legal process or is directly necessary in connection with any legal action or proceeding initiated against Employee. In such event, Employee shall notify the Corporation in writing of the disclosure to be made and afford the Corporation the reasonable opportunity to seek a protective order or take other reasonable steps to maintain the confidentiality of any such material.

The Employee acknowledges and agrees that the obligations under this section are to remain in effect in perpetuity and shall exist and continue in full force and effect notwithstanding any breach or repudiation, or alleged breach or repudiation, by the Corporation of this Agreement.

16. Remedies

The Employee acknowledges that a breach or threatened breach by the Employee of the provisions of any of sections 12 to 15 inclusive will result in the Corporation and its shareholders suffering irreparable harm which is not capable of being calculated and which cannot be fully or adequately compensated by the recovery of damages alone. Accordingly, the Employee agrees that the Corporation and any successor corporation shall be entitled to temporary and permanent injunctive relief, specific performance and other equitable remedies, in addition to any other relief to which the Corporation or any successor corporation may become entitled.

17. Notices

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be given via certified or registered mail return receipt requested, by facsimile with confirmation of receipt or via national and reputable overnight delivery service, except that any notice of termination by the either party shall be given by certified mail return receipt requested. Any such notice shall be deemed to have been received on the day of delivery. Notice of change of address shall also be governed by this section. Notices and other communications shall be addressed as follows:

a) if to the Employee:

Steven P. Rasche
12442 Cinema Lane
St. Louis, MO 63127

b) if to the Corporation:

TLC Vision Corporation
540 Maryville Centre Drive Suite 200
St. Louis, MO 63141
Attention: General Counsel
Telecopier number: (314) 434-2424

18. Headings

The inclusion of headings in this Agreement is for convenience of reference only and shall not affect the construction or interpretation hereof.

19. Invalidity of Provisions

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof.

20. Entire Agreement

This Agreement constitutes the entire agreement among the parties and any Affiliates or Subsidiaries of the Corporation pertaining to the subject matter of this Agreement. This Agreement supersedes and replaces all prior agreements, if any, written or oral, with respect to the Employee's employment by the Corporation and any rights which the Employee may have by reason of any such prior agreement or by reason of the Employee's prior employment, if any, by the Corporation or by reason of the Employee's prior services to the Corporation or its Affiliates or Subsidiaries. There are no warranties, representations or agreements among the parties and the Corporation's Affiliates and Subsidiaries in connection with the subject matter of this Agreement except as specifically set forth or referred to in this Agreement.

21. Waiver, Amendment

Except as expressly provided in this Agreement, no amendment or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any provision of this Agreement shall constitute a waiver of any other provision nor shall any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

22. Currency

Except as expressly provided in this Agreement, all amounts in this Agreement are stated and shall be paid in U.S. currency.

23. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri, without regard to its conflict of laws rules, which are deemed inapplicable herein. The parties hereto each consent to the personal jurisdiction of the federal and state courts of the State of Missouri.

24. Counterparts

This Agreement may be signed in counterparts, and each of such counterparts shall constitute an original document, and such counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties have executed this Agreement.

EMPLOYEE

/s/Steven P. Rasche
Steven P. Rasche

TLC VISION CORORATION

By: /s/James Wachtman
James Wachtman,
President

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made as of the 31 day of December 2004 between TLC Vision Corporation, a New Brunswick corporation (the "Corporation"), and Brian L. Andrew, who resides at 15788 Summer Ridge Dr., Chesterfield, MO 63017 (the "Employee").

WHEREAS, the Corporation and the Employee wish to enter into this Agreement to set forth the rights and obligations of each of them with respect to the Employee's employment with the Corporation;

NOW, THEREFORE, in consideration of the mutual covenants and undertakings contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Corporation and the Employee agree as follows:

1. Definitions

1.1. In this Agreement,

1.1.1. "**Affiliate**" has the meaning set forth in Section 5001 of the Delaware Code as the same may be amended from time to time, and any successor legislation thereto;

1.1.2. "**Agreement**" means this agreement and all schedules attached to this agreement, in each case as they may be amended or supplemented from time to time, and the expressions "hereof," "herein," "hereto," "hereunder," "hereby" and similar expressions refer to this agreement and unless otherwise indicated, references to sections are to sections in this agreement;

1.1.3. "**Salary**" has the meaning attributed to such term in section 5.1;

1.1.4. "**Benefits**" has the meaning attributed to such term in section 5.4;

1.1.5. "**Business Day**" means any day, other than Saturday, Sunday or any holiday on which the employees of the Corporation are not required to report for work;

1.1.6. "**Change of Control**" for the purposes of this Agreement shall be deemed to have occurred when:

1.1.6.1. any Person acquires or becomes the beneficial owner of, or a combination of Persons acting jointly and in concert acquires or becomes the beneficial owner of, directly or indirectly, more than 40% of the voting securities of the Corporation, whether through the acquisition of previously issued and outstanding voting securities, or of voting securities that have not been previously issued, or any combination thereof, or any other transaction having a similar effect; such percentage being determined on a undiluted basis without regard to options and warrants then outstanding and unexercised;

1.1.6.2. the Corporation amalgamates with one or more corporations other than a Subsidiary or Affiliate;

1.1.6.3. the Corporation sells, leases or otherwise disposes of all or substantially all of its assets, whether pursuant to one or more transactions;

1.1.6.4. any Person not part of existing management of the Corporation or any Person not controlled by the Corporation or by any Affiliate enters into any arrangement to provide management services to the Corporation which results in either (i) the termination by the Corporation of the employment of any two of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and General Counsel for any reason other than Just Cause; or (ii) the termination by the Corporation for any reason other than Just Cause of the employment of all such senior executive personnel within six months of the date that such arrangement is entered into;

1.1.6.5. the Corporation enters into any transaction or arrangement which would have the same or similar effect as the transactions referred to in sections 1.1.6.1, 1.1.6.2, 1.1.6.3 or 1.1.6.4 above.

- 1.1.7. **“Confidential Information”** means all confidential or proprietary information, intellectual property (including but not limited to trade secrets, customer lists, projections, business plans) and confidential facts relating to the business or affairs of the Corporation or any of its Affiliates or Subsidiaries which is treated as confidential or proprietary;
- 1.1.8. **“Disability”**
- 1.8.1.1. Employee shall be deemed permanently disabled if (a) Employee is unable to provide the Corporation with at least thirty (30) hours per week of normal effective work time during a continuous six (6) month period and (b) if at the expiration of said six (6) month period, insofar as can be reasonably foreseen, Employee will thereafter be unable to give at least thirty (30) hours per week of normal effective working time.
- 1.8.1.2. Until the expiration of the six (6) month period of disability, Employee shall be entitled to received his regularly established salary and bonus, less any monthly disability income insurance payments.
- 1.8.1.3. In the event the parties hereto are unable to agree on the existence of a disability or the date on which the aforesaid six (6) month period of disability began, the Corporation and Employee shall each designate a physician and the two physicians so designated shall then select a third physician, which third physician shall then determine whether a permanent disability exists within the meaning of this Agreement and when the disability commenced if it does exist. The determination of the said third physician shall bind the parties hereto. For convenience of determining the rights of the parties under this provision, a permanent disability shall be deemed to begin on the first day of the month which immediately follows the date on which the disability actually occurred, or is judged by the aforesaid third physician to have occurred. If the said third physician determines that Employee is not capable of performing the services required of him hereunder, the Corporation shall have the right to require Employee to submit to additional periodic examinations (not to exceed one per month), at the Corporation’s expense, by that physician for so long as Employee purports to be disabled.
- 1.8.1.4. The foregoing to the contrary notwithstanding, in the event the Corporation terminates the employment of Employee due to the disability of Employee and if, after such termination and prior to the normal termination date of this Agreement (or any extension or renewal hereof) Employee is judged by the aforesaid third physician to be able to return to his normal duties, then the Corporation shall hire Employee as a consultant to the Corporation for the balance of the term of this Agreement (or any extension or renewal hereof), at Employee’s salary as of the date of termination and subject to all other terms and conditions of this Agreement.
- 1.1.9. **“Employment Period”** has the meaning attributed to such term in section 4;
- 1.1.10. **“Good Reason”** means:
- 1.1.10.1.a reduction of more than ten percent by the Corporation in the Employee’s then current Salary (set forth in Section 5.1)
- 1.1.10.2.the taking of any action by the Corporation which would materially and adversely affect the Employee’s participation in, or materially reduce the Employee’s Benefits and other similar plans in which the Employee is participating at the date hereof (or such other plans as may be implemented after the date hereof that provide the Employee with substantially similar benefits), or the taking of any action by the Corporation which would deprive the Employee of any material fringe benefit enjoyed by him at the date hereof unless such action by the Corporation affects all employees or reduces or deprives all or a majority of the Corporation’s employees of benefits previously enjoyed.
- 1.1.10.3.the taking of any action by the Corporation which would materially and adversely affect Employee’s duties under this Agreement.
- 1.1.10.4.The Corporation relocates Employee’s principal office outside the Greater St. Louis, Missouri area, which shall be defined as St. Louis, Jefferson, St. Charles and Franklin counties in Missouri and St. Clair and Madison counties in Illinois.

1.1.10.5. In the event of a breach or a claimed breach of this Agreement by the Corporation under this section 1.1.10, Employee shall give notice to the Corporation of any such claimed breach and the Corporation shall have thirty (30) days from the date of receipt of such notice to cure any such claimed breach.

1.1.11. **“Just Cause”** shall mean that the Employee has been convicted of any crime involving larceny, embezzlement, conversion or any other act involving the misappropriation of Corporation funds in the course of his employment;

1.1.12. **“Person”** means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, limited liability company, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency, authority or entity however designated or constituted;

1.1.15 **“Subsidiaries”** has the meaning attributed to such term by Section 5001 of the Delaware Code as the same may be amended from time to time and any successor legislation thereto;

1.1.16. **“Year of Employment”** means any 12 month period commencing on Effective Date (defined herein) or on any anniversary of such date.

2. Employment of the Employee

The Corporation shall employ the Employee, and the Employee shall serve the Corporation, in the position of V.P. Secretary and General Counsel. In such position, the Employee shall perform and fulfill such duties and responsibilities as the Corporation may designate from time to time. The Employee shall report to the Chief Executive Officer of the Corporation or such other person or persons as designated by the Board of Directors from time to time. Employee shall perform his duties hereunder in the Greater St. Louis metropolitan area or at such other location or locations as are mutually agreed between Employee and the Company.

3. Performance of Duties

During the Employee’s employment, the Employee shall faithfully, honestly and diligently serve the Corporation and its Subsidiaries as contemplated above. The Employee shall devote all of his working time and attention to his employment hereunder and shall use his best efforts to promote the interests of the Corporation.

4. Employment Period

Subject to the terms and conditions hereinafter provided, the term of the Executive’s employment shall commence on February 1, 2005 (the “Effective Date”). Upon the Effective Date, the Executive’s employment shall continue for a term of one year unless and until sooner terminated under this Agreement (“Initial Term”). After the Initial Term, this Agreement shall continue for successive one-year terms (each year term referred to as an “Extension Term”) unless either party gives written notice to the other party of its intention to terminate this Agreement at least six (6) months prior to the end of the then current term.

5. Remuneration

5.1. **Salary.** The Corporation shall pay the Employee a base salary minus applicable deductions and withholdings, for each Year of Employment of this Agreement calculated at the rate of Two Hundred Ten Thousand Dollars (**\$210,000**) per annum (“Salary”), payable in equal installments according to the Corporation’s regular payroll practices. Subsequent to the initial year of employment under this Agreement, Employee’s salary may be increased, but shall not be reduced from the base amount paid to Employee during the previous year.

5.2 **Bonus Remuneration.** The Employee is eligible to receive a bonus equal to a maximum amount of 50% of the Employee’s Salary, less applicable deductions and withholdings. The payment of any bonus will be based on Employee’s performance within a specific area of responsibility and/or the Corporation achieving its financial objectives for the fiscal year; the amount of any such bonus and whether any bonus is earned shall be determined by the Corporation in its sole discretion. Any bonus earned shall be paid within sixty (60) days after the end of the Corporation’s fiscal year.

5.5. **Stock Options.** The Employee shall receive 40,000 stock options.

5.6. **Benefits.** The Company shall provide to the Employee, in addition to Salary and stock options, if any, the benefits (the “Benefits”) described in the Company’s Employee Handbook, such Benefits to be provided in accordance with and

subject to the terms and conditions of the Handbook as such is amended from time to time. At a minimum, the Company will provide, at the Company's expense, a medical and dental plan for Employee and his spouse and dependents, as well as a life insurance policy and disability plan to protect the Employee's income. Employee shall also be covered under the Company's liability insurance policy for directors and officers under the same terms and conditions that apply to other directors and officers of the Company. In addition, the Company shall provide Employee, at the Company's sole expense, with a policy of life insurance to be owned by the Employee in a face amount of not less than \$500,000.

5.5. **Pro-Rata Entitlement in the Event of Termination.** If the Employee's employment is terminated pursuant to section 8 or if the Employee dies during a Year of Employment, the Employee shall be entitled to receive that portion of the Salary in respect of the Year of Employment representing the number of days the Employee actually worked and only any bonus earned prior to the termination of the Employee's employment.

6. **Expenses**

Subject to the terms of the Corporation's expense policy, as such may be revised from time to time, the Corporation shall pay, or reimburse the Employee for, all authorized and appropriate travel and out-of-pocket expenses reasonably incurred or paid by the Employee in the performance of his duties and responsibilities, upon presentation of expense statements and receipts and such other supporting documentation as the Corporation may reasonably require.

7. **Vacation**

The Employee shall be entitled during each Year of Employment to vacation with pay equal to the standard award offered to all employees plus one week (three weeks in the initial year of this Agreement); Employee's vacation shall accrue at the equal rate each month (1.250 days per month in the initial year of the Agreement) in accordance with the Corporation's policy. Vacation shall be taken by the Employee at such time(s) as may be acceptable to the Corporation. Except with the prior written consent of the President (i) no more than two weeks of vacation shall be taken consecutively, and (ii) no more than five days of the vacation entitlement earned in any Year of Employment can be carried forward to a subsequent Year of Employment. Notwithstanding the foregoing, in the event that the Employee's employment is terminated pursuant to this Agreement, the Employee shall not be entitled to receive any payment in lieu of any vacation to which he was entitled and which had not already been taken by him.

8. **Termination**

8.1. **Notice.** The Employee's employment may be terminated at any time:

8.1.1 by the Corporation without prior notice and without obligation to the Employee (i) for reasons of Just Cause; or (iii) Disability of Employee;

8.1.2. by the Corporation for any reason other than Just Cause, Disability of Employee or as set forth in Section 4.0;

8.1.3. by the Employee on one month written notice to the Corporation; or

8.1.4. by the Corporation as set forth in Section 4.0.

Notwithstanding the terms herein, the Employee's employment shall be automatically terminated, without further obligation to the Employee or his heirs, in the event of his death.

8.2. **Effective Date.** The effective date on which the Employee's employment shall be terminated shall be:

8.2.1. in the case of termination under section 8.1.1, the day the Employee is deemed, under section 17, to have received notice from the Corporation of such termination;

8.2.2. in the case of termination under section 8.1.2, on the date of the event giving rise to the termination;

8.2.3 in the case of termination under section 8.1.3, on the date one month after notice to the Corporation, provided the Corporation utilizes Employee's services during this one month after notice;

8.2.4. in the case of termination under section 8.1.4, on the date before the next anniversary of the Effective Date, provided the Employee provides services in accordance with this Agreement from the date of termination notice up

to the date of termination;
8.2.5.in the event of the death of the Employee, on the date of his death.

9. Rights of Employee on Termination and Payment

Where the Employee's employment under this Agreement has been terminated by the Corporation under sections 8.1.2, the Employee shall be entitled, upon receipt by the Corporation of a waiver and release in a form acceptable to the Corporation, to receive from the Corporation, in addition to accrued but unpaid Salary, if any, a payment equal to twelve months Salary, less any amounts owing by the Employee to the Corporation for any reason and applicable deductions and withholdings, payable in one lump sum.

Except as provided above in this section, where the Employee's employment has been terminated by the Employee or by the Corporation for any reason, the Employee shall not be entitled to receive any payment as severance pay, in lieu of notice, or as damages.

10. Change of Control

10.1. **Termination of Employment for Good Reason.** If at any time during this Agreement and within 12 months following a Change of Control, the Employee's employment is terminated by the Employee as a result of the Corporation taking actions which would materially and adversely affect Employee's duties under this Agreement, the Employee shall be entitled, upon receipt by the Corporation of a waiver and release in a form acceptable to the Corporation, to receive from the Corporation, a payment equal to twelve months Salary, less any amounts owing by the Employee to the Corporation for any reason and applicable deductions and withholdings, payable in twelve (12) equal monthly installments.

For greater certainty, this section 10.1 does not apply in the event of the termination of the employment of the Employee as a result of death, Disability or retirement of the Employee or by the Corporation for Just Cause or pursuant to Section 4.0, or by the Employee without Good Reason.

10.2 **Limitation on Payments Following a Change in Control.** Notwithstanding any other provision of this Agreement, if any payment to or for the benefit of the Employee under this Agreement either alone or together with other payments to or for the benefit of the Employee would constitute a "parachute payment" (as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code")), the payments under this Agreement shall be reduced to the largest amount that will eliminate both the imposition of the excise tax imposed by Section 4999 of the Code and the disallowance of deductions to the Corporation under Section 280G of the Code for any such payments. The amount and method of any reduction in the payments under this Agreement pursuant to this Section 10.2 shall be as reasonably determined by the Compensation Committee of the Board of Directors of the Corporation.

11. No Obligation to Mitigate

The Employee shall not be required to mitigate the amount of any payment or Benefits provided for in this Agreement by seeking other employment or otherwise, nor (except as specifically provided herein) shall the amount of any payment provided for in this Agreement be reduced by any compensation earned by the Employee as a result of employment by another employer after termination or otherwise.

12. Non-Competition

The Employee shall not, either during his employment and for a period of one year following the termination of Employee's employment, within the United States of America or Canada, directly or indirectly, in any manner whatsoever including, without limitation, either individually, or in partnership, jointly or in conjunction with any other Person, or as employee, principal, agent, director or shareholder:

12.1. be engaged in any undertaking related to refractive laser vision corrective surgery, cataract surgery or ophthalmic ambulatory surgery centers or any business conducted by the Corporation;

12.2. have any financial or other interest (including an interest by way of royalty or other compensation arrangements) in or in respect of the business of any Person which carries on a business of refractive laser corrective surgery, cataract surgery or ophthalmic ambulatory surgery centers or carries on any business conducted by the Corporation; or

12.3. advise, lend money to, guarantee the debts or obligations of or permit the use of the Employee's name or any parts thereof by any Person engaged in the refractive laser corrective surgery business, cataract surgery or ophthalmic ambulatory

surgery centers or which competes or competed directly or indirectly with the Corporation or any of its Affiliates or Subsidiaries, during the Employee's employment or at the end thereof, as the case may be.

Notwithstanding the foregoing, nothing herein shall prevent the Employee from owning not more than 5% of the issued shares of a corporation, the shares of which are listed on a recognized stock exchange or traded in the over the counter market in Canada or the United States, which carries on a business which is the same as or substantially similar to or which competes with or would compete with the business of the Corporation or any of its Affiliates or Subsidiaries.

13. No Solicitation of Patients

The Employee shall not, either during his employment or for a period of one year thereafter ("Restricted Period"), directly or indirectly, contact or solicit any customers or patients of the Corporation or any of its Affiliates or Subsidiaries for the purpose of selling to those patients any products or services which are the same as or substantially similar to, or in any way competitive with, the refractive laser corrective surgery, cataract surgery or ophthalmic ambulatory surgery center products or services provided by the Corporation or any of its Affiliates or Subsidiaries during Employee's employment or at the end thereof, as the case may be. For the purpose of this section, a designated patient means a Person who was a patient of the Corporation or of any of its Subsidiaries during some part of Employee's employment.

14. No Solicitation of Employees

The Employee shall not, either during his employment or the Restricted Period, directly or indirectly, employ or retain as an independent contractor any employee of the Corporation or any of its Affiliates or Subsidiaries or induce or solicit, or attempt to induce, any such person to leave his/her employment.

15. Confidentiality

The Employee shall not, either during his employment or at any time thereafter, directly or indirectly, use or disclose to any Person any Confidential Information; provided, however, that nothing in this section shall preclude the Employee from disclosing or using Confidential Information if:

15.1. the Confidential Information is available to the public or in the public domain at the time of such disclosure or use, without breach of this Agreement; or

15.2. disclosure of the Confidential Information is required by law or legal process or is directly necessary in connection with any legal action or proceeding initiated against Employee. In such event, Employee shall notify the Corporation in writing of the disclosure to be made and afford the Corporation the reasonable opportunity to seek a protective order or take other reasonable steps to maintain the confidentiality of any such material.

The Employee acknowledges and agrees that the obligations under this section are to remain in effect in perpetuity and shall exist and continue in full force and effect notwithstanding any breach or repudiation, or alleged breach or repudiation, by the Corporation of this Agreement.

16. Remedies

The Employee acknowledges that a breach or threatened breach by the Employee of the provisions of any of sections 12 to 15 inclusive will result in the Corporation and its shareholders suffering irreparable harm which is not capable of being calculated and which cannot be fully or adequately compensated by the recovery of damages alone. Accordingly, the Employee agrees that the Corporation and any successor corporation shall be entitled to temporary and permanent injunctive relief, specific performance and other equitable remedies, in addition to any other relief to which the Corporation or any successor corporation may become entitled.

17. Notices

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be given via certified or registered mail return receipt requested, by facsimile with confirmation of receipt or via national and reputable overnight delivery service, except that any notice of termination by the either party shall be given by certified mail return receipt requested. Any such notice shall be deemed to have been received on the day of delivery. Notice of change of address shall also be governed by this section. Notices and other communications shall be addressed as follows:

c) if to the Employee:

Brian L. Andrew
15788 Summer Ridge Dr.
Chesterfield, MO 63017

d) if to the Corporation:

TLC Vision Corporation
540 Maryville Centre Drive Suite 200
St. Louis, MO 63141
Attention: Chief Executive Officer
Telecopier number: (314) 434-7251

18. Headings

The inclusion of headings in this Agreement is for convenience of reference only and shall not affect the construction or interpretation hereof.

19. Invalidity of Provisions

Each of the provisions contained in this Agreement is distinct and severable and a declaration of invalidity or unenforceability of any such provision by a court of competent jurisdiction shall not affect the validity or enforceability of any other provision hereof.

20. Entire Agreement

This Agreement constitutes the entire agreement among the parties and any Affiliates or Subsidiaries of the Corporation pertaining to the subject matter of this Agreement. This Agreement supersedes and replaces all prior agreements, if any, written or oral, with respect to the Employee's employment by the Corporation and any rights which the Employee may have by reason of any such prior agreement or by reason of the Employee's prior employment, if any, by the Corporation or by reason of the Employee's prior services to the Corporation or its Affiliates or Subsidiaries. There are no warranties, representations or agreements among the parties and the Corporation's Affiliates and Subsidiaries in connection with the subject matter of this Agreement except as specifically set forth or referred to in this Agreement.

21. Waiver, Amendment

Except as expressly provided in this Agreement, no amendment or waiver of this Agreement shall be binding unless executed in writing by the party to be bound thereby. No waiver of any provision of this Agreement shall constitute a waiver of any other provision nor shall any waiver of any provision of this Agreement constitute a continuing waiver unless otherwise expressly provided.

22. Currency

Except as expressly provided in this Agreement, all amounts in this Agreement are stated and shall be paid in U.S. currency.

23. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Missouri, without regard to its conflict of laws rules, which are deemed inapplicable herein. The parties hereto each consent to the personal jurisdiction of the federal and state courts of the State of Missouri.

24. Counterparts

This Agreement may be signed in counterparts, and each of such counterparts shall constitute an original document, and such counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF the parties have executed this Agreement.

EMPLOYEE

/s/Brian L. Andrew
Brian L. Andrew

TLC VISION CORPORATION

By: /s/James Wachtman
James Wachtman,
Chief Executive Officer

Listing of the Company's Subsidiaries

American Eye Instruments, Inc.
Aspen Healthcare Inc.
Blake Woods ASC
California Refractive LLC
CUSA 2002 Investments, LLC
Huntsville Center for Advanced Cataract Surgery LLC
Laser Access of Indiana LLC
Laser Eye Care of California, LLC
Laser Vision Center of Edina LLC
Laser Vision Centers, Inc.
Laservision (Europe) Limited
LaserVision Centres Limited
Laser Vision Limited
Laservision Harley Street Limited
Long Island Refractive LLC
LVCI California, LLC
Midwest Surgical Services, Inc.
New Mexico Refractive LLC
New Vision Strategies LLLC
Northwestern Laser Vision LLC
OccuLogix Holdings, Inc.
OccuLogix, Inc.
OccuLogix LLC
OccuLogix, LP
OccuLogix Management Inc.
Ogden Refractive LLC
Ontario Laser Center LLC
OR Partners, Inc.
OR Providers, Inc.
Oxford Eye Surgery Center, LP
Permian Basin Surgical Care Center Ltd.
Phoenix Eye Surgical Center
Providence Refractive LLC
Refractive Laser Partnership No. 1
RHEO Clinic, Inc.
Rockland Surgery Center LP
San Jose Refractive LLC
Southeast Medical, Inc.
Southern Ophthalmics, Inc.
Texoma Regional Surgery Center LLC
TLC Apheresis Inc.
TLC Ardmore LLC
TLC Capital Corporation
TLC Florida Eye Laser Center LLC
TLC Laser Eye Care of La Jolla LLC
TLC Laser Eye Care of Torrance LLC
TLC Laser Eye Centers (ATAC) LLC
TLC Laser Eye Centers (Piedmont/Atlanta) LLC
TLC Laser Eye Centers (Refractive I) Inc.
TLC Managed Care Inc.

TLC Management Services Inc.
TLC Michigan L.L.C.
TLC Michigan Investements, LLC
TLC Midwest Eye Laser Center, Inc.
TLC Network Services Inc.
TLC Northwest Ohio LLC
TLC Oklahoma Doctors L.L.C.
TLC Personnel Services LLC
TLC The Laser Center (Annapolis) Inc.
TLC The Laser Center (Baltimore Management) LLC
TLC The Laser Center (Baltimore) Inc.
TLC The Laser Center (Boca Raton) Limited Partnership
TLC The Laser Center (Carolina) Inc.
TLC The Laser Center (Connecticut) L.L.C.
TLC The Laser Center Detroit L.L.C.
TLC The Laser Center (Indiana) Inc.
TLC The Laser Center (Indiana) LLC
TLC The Laser Center (Institute) Inc.
TLC The Laser Center Kalamazoo L.L.C.
TLC The Laser Center Lansing L.L.C.
TLC The Laser Center London Inc.
TLC The Laser Center (Moncton) Inc.
TLC The Laser Center (Northeast) Inc.
TLC The Laser Center (Northwest) Inc.
TLC The Laser Center Patents Inc.
TLC The Laser Center (Pittsburgh) L.L.C.
TLC The Laser Center (Tri-Cities) Inc.
TLC USA, LLC
TLC Vision (USA) Corporation
TLC Vision Source, Inc.
TLC Whitten Laser Eye Associates LLC
Valley Laser Eye Center LLC
Vision Corporation
Vision Source LP
Vision Source Management LLC
Vision Source Marketing, Inc.
Wisconsin Refractive LLC

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-8, No. 333-115910, Form S-8, No. 333-116769, Form S-8, No. 333-71532, Form S-8, No. 333-55480, and Form S-8, No. 333-62907) of TLC Vision Corporation of our reports dated March 11, 2005, with respect to the consolidated financial statements and schedule of TLC Vision Corporation, TLC Vision Corporation Management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of TLC Vision Corporation, included in the Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/Ernst & Young LLP

St. Louis, Missouri
March 15, 2005

CERTIFICATION

I, James C. Wachtman, certify that:

1. I have reviewed this annual report on Form 10-K of TLC Vision Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2005

/s/ James C. Wachtman
James C. Wachtman
Chief Executive Officer

CERTIFICATION

I, Steven P. Rasche, certify that:

1. I have reviewed this annual report on Form 10-K of TLC Vision Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2005

/s/ Steven P. Rasche
Steven P. Rasche
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TLC Vision Corporation (the "Company") on Form 10-K for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James C. Wachtman, Chief Executive Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 11, 2005

/s/ James C. Wachtman
James C. Wachtman
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TLC Vision Corporation (the "Company") on Form 10-K for the period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven P. Rasche, Chief Financial Officer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 11, 2005

/s/ Steven P. Rasche
Steven P. Rasche
Chief Financial Officer

RECONCILIATION BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

TLC Vision Corporation (the "Company") prepares its consolidated financial statements in accordance with United States (U.S.) Generally Accepted Accounting Principles ("GAAP"), which differ in certain respects from Canadian GAAP. This reconciliation between Canadian and U.S. GAAP should be read in conjunction with the consolidated financial statements as of December 31, 2004 and 2003 and for the years ended December 31, 2004 and 2003, seven month period ended December 31, 2002 and year ended May 31, 2002 and related management's discussion and analysis prepared in accordance with U.S. GAAP and filed with the Securities Exchange Commission and the Ontario Securities Commission.

a) Reconciliation from U.S. GAAP to Canadian GAAP

Following is a reconciliation of net income from U.S. GAAP to Canadian GAAP:

	<u>YEAR ENDED DECEMBER 31,</u>		<u>SEVEN- MONTH PERIOD ENDED DECEMBER 31,</u>	<u>YEAR ENDED MAY 31,</u>
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
Net income (loss) per U.S. GAAP.....	\$43,708	\$ (9,399)	\$ (43,343)	\$ (161,849)
Amortization of Practice Management Agreements (1).....	(1,512)	(1,512)	(882)	--
Depreciation of fixed assets (2).....	(280)	(280)	(257)	(161)
Interest income on note receivable related to the sale-leaseback of building (3).....	78	78	44	44
Other.....	--	--	--	(193)
Adjustment for the sale-leaseback of building (2).....	--	--	--	(829)
Restructuring and other charges (5).....	--	--	--	222
Impairment of intangible assets (1).....	--	--	--	6,334
Cumulative effect of accounting change (1).....	--	--	--	15,174
Variable accounting for stock options (4).....	108	--	--	--
Fair value accounting of stock options (4).....	<u>(1,245)</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net income (loss) per Canadian GAAP.....	<u>\$40,857</u>	<u>\$ (11,113)</u>	<u>\$ (44,438)</u>	<u>\$ (141,258)</u>
Net income (loss) per share for Canadian GAAP – basic.....	<u>\$ 0.60</u>	<u>\$ (0.17)</u>	<u>\$ (0.70)</u>	<u>\$ (3.60)</u>
Net income (loss) per share for Canadian GAAP – diluted.....	<u>\$ 0.57</u>	<u>\$ (0.17)</u>	<u>\$ (0.70)</u>	<u>\$ (3.60)</u>

The most significant balance sheet differences between U.S. GAAP and Canadian GAAP are as follows:

	<u>DECEMBER 31, 2004</u>	<u>DECEMBER 31, 2003</u>
<i>Investments and Other Assets</i>		
Balance per U.S. GAAP.....	\$ 10,482	\$ 3,102
Note receivable related to the sale-leaseback of building (2) .	<u>913</u>	<u>976</u>
Balance per Canadian GAAP.....	<u>\$ 11,395</u>	<u>\$ 4,078</u>
<i>Intangibles, Net</i>		
Balance per U.S. GAAP	\$ 18,140	\$ 22,959
Difference in impairment write-off of intangibles (1).....	6,334	6,334
Amortization of Practice Management Agreements (1).....	<u>(3,906)</u>	<u>(2,394)</u>
Balance per Canadian GAAP	<u>\$ 20,568</u>	<u>\$ 26,899</u>
<i>Fixed Assets, Net</i>		
Balance per U.S. GAAP.....	\$ 46,199	\$ 56,891
Adjustment for the sale-leaseback of building (2).....	(829)	(829)
Depreciation of fixed assets (2).....	<u>(978)</u>	<u>(698)</u>
Balance per Canadian GAAP	<u>\$ 44,392</u>	<u>\$ 55,364</u>

	<u>DECEMBER 31,</u> <u>2004</u>	<u>DECEMBER 31,</u> <u>2003</u>
<i>Long-Term Debt, Less Current Maturities</i>		
Balance per U.S. GAAP	\$ 9,991	\$ 19,242
Adjustment for note payable related to the sale-leaseback of building (2).....	850	913
Cumulative interest payments received on note receivable related to the sale-leaseback of building (3).....	<u>(224)</u>	<u>--</u>
Balance per Canadian GAAP	<u>\$ 10,617</u>	<u>\$ 20,155</u>
<i>Contributed Surplus</i>		
Balance per U.S. GAAP	\$ --	\$ --
Adjustment for change in accounting policy related to the fair value accounting of stock options (4).....	13,607	--
Adjustment for fair value accounting of stock options (4)	<u>1,245</u>	<u>--</u>
Balance per Canadian GAAP	<u>\$ 14,852</u>	<u>\$ --</u>
<i>Option and Warrant Equity</i>		
Balance per U.S. GAAP	\$ 2,872	\$ 8,143
Adjustment to compensation expense for warrants and stock options (4).....	<u>(330)</u>	<u>(222)</u>
Balance per Canadian GAAP	<u>\$ 2,542</u>	<u>\$ 7,921</u>
<i>Accumulated Deficit</i>		
Balance per U.S. GAAP	\$ (251,044)	\$(294,752)
Adjustment to the value of intangible Practice Management Agreements (1)	2,428	3,940
Adjustment for the sale-leaseback of building (2).....	(1,807)	(1,527)
Cumulative interest on note receivable related to the sale-leaseback of building (3).....	244	166
Adjustment to compensation expense for warrants and stock options (4).....	(915)	222
Adjustment for change in accounting policy related to the fair value of stock options (4).....	<u>(13,607)</u>	<u>--</u>
Balance per Canadian GAAP.....	<u>\$(264,701)</u>	<u>\$(291,951)</u>

- (1) During the year ended May 31, 2002, the Company reviewed its Practice Management Agreements (“PMA’s”) for impairment based on budgets prepared for future periods. The refractive industry had experienced reduced procedure volumes over the prior two years as a result of increased competition, customer confusion and a weakening North American economy. This reduction in procedures had occurred at practices the Company had purchased, and as a result revenues were lower than anticipated when initial purchase prices and resulting intangible values were determined.

For U.S. GAAP purposes, the Company accounts for its intangible assets subject to amortization in accordance with Statement of Financial Accounting Standard (“SFAS”) No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). SFAS 142 requires the impairment analysis first consider undiscounted cash flows in determining if an impairment exists. If an impairment is evident, a second calculation using a discounted cash flow method is utilized to determine the actual amount of the impairment. For U.S. GAAP purposes, the Company recorded an impairment charge of \$31.0 million for the year ended May 31, 2002 related to its PMA’s.

For Canadian GAAP purposes, the Company measured the initial impairment charge in accordance with the Canadian Institute of Chartered Accountant’s (“CICA”) Handbook Section 3060, “Capital Assets”, the Canadian GAAP rules in existence during the year ended May 31, 2002 (“CICA 3060”). CICA 3060 required an impairment charge to be recognized when the expected future undiscounted cash flows do not exceed the carrying value of such assets.

As at May 31, 2002, this resulted in a \$6.3 million difference in the write-down of the PMA's between U.S. and Canadian GAAP (\$24.7 million). This difference in the initial measurement of the impairment further resulted in a difference to the amortization expense in subsequent periods, resulting in an additional \$3.9 million of amortization expense for Canadian GAAP compared to U.S. GAAP.

During 2003, the CICA issued CICA 3061, Property, Plant and Equipment which is consistent with U.S. GAAP, however retroactive adoption of this change was not required.

- (2) During the year ended May 31, 2002, the Company completed a sale-leaseback transaction. Total consideration received for the sale of the building and related land was \$6.4 million, which was comprised of \$5.4 million in cash and a \$1.0 million 8.0% note receivable ("Note"). The Note has a seven-year term with the first of four annual payments of \$63,000 starting on the third anniversary of the sale and a final payment of \$0.7 million due on the seventh anniversary of the sale.

For U.S. GAAP purposes, this transaction was accounted for in accordance with SFAS 98, "Accounting for Leases" ("SFAS 98"). SFAS 98 prohibits sale recognition on a sale-leaseback transaction when the sublease is considered to be minor and the only recourse to any future amounts owing from the other party is the leased asset. A sublease is considered to be minor when the present value of the sublease rent is less than 10% of the total fair market value. The Company accounted for the transaction as a financing transaction which requires sale proceeds to be recorded as a liability and for the Note to not be recognized. In addition, since the sale recognition is not accounted for, the carrying value of the asset is not adjusted for and the asset continues to be depreciated over the original depreciation period of 40 years. Lease payments, exclusive of an interest portion, decrease the liability while payments received on the Note increase the liability.

For Canadian GAAP purposes, the sale-leaseback transaction was accounted for in accordance with Emerging Issues Committee No. 25, "Accounting for Sales with Leasebacks", which resulted in the Company recognizing a loss on the sale with a corresponding lease asset and lease obligation. The terms of the lease are considered capital in nature and accordingly the land and building are reflected as assets under capital lease with the discounted value of the lease payments recorded as an obligation under capital lease. The fair value of the assets under capital lease was less than its previous carrying value and accordingly a write down of approximately \$0.8 million was reflected in the consolidated statement of operations for the year ended May 31, 2002.

For U.S. GAAP purposes, depreciation expense reflects the higher net book value of the building depreciated over a 40-year expected life. For Canadian GAAP purposes, the building is depreciated over the 15-year life of the lease and the Note (\$0.9 million as of December 31, 2004) is included in investments and other assets.

As of December 31, 2004, as a result of the difference in the initial accounting treatment of the sale-leaseback transaction and subsequent differences in depreciation expense recorded, the net book value of the building is \$1.8 million higher for U.S. GAAP. Investments and other assets is \$0.9 million higher and notes payable is \$0.7 million higher (of which \$0.6 million is classified as long-term) for Canadian GAAP. For the years ended December 31, 2004 and 2003, the seven-month period ended December 31, 2002 and the year ended May 31, 2002, depreciation expense is higher for U.S. GAAP by \$280,000, \$280,000, \$257,000 and \$161,000, respectively.

- (3) For the years ended December 31, 2004 and 2003, the seven-month period ended December 31, 2002 and the year ended May 31, 2002, the Company reported \$78,000, \$78,000, \$44,000 and \$44,000, respectively, of interest income related to the Note on the sale-leaseback of the building as described above.

As of December 31, 2004, \$20,000 of interest income was not yet received, and the associated interest receivable was included in prepaids and other current assets for Canadian GAAP purposes. In the above U.S. GAAP to Canadian GAAP reconciliation, cumulative interest payments received of \$224,000 are recorded as reductions to long-term debt in order to adjust the U.S. GAAP treatment of the payments, which increases the debt upon their receipt.

- (4) For U.S. GAAP purposes, the Company has adopted the disclosure requirements of SFAS No. 123, Accounting for Stock-Based Compensation ("SFAS 123") and as permitted under SFAS 123, applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25") and related interpretations in accounting for its stock option plans. SFAS 123 requires disclosure of pro forma amounts to reflect the impact if the Company had elected to adopt the optional recognition provisions of SFAS 123 for its stock option plans and employee stock purchase plans.

For Canadian GAAP purposes, the Company accounts for its stock options in accordance with the provisions of CICA Section 3870, Stock-Based Compensation and Other Stock-Based Payments, (“CICA 3870”).

CICA 3870, issued in December 2001, established standards for the recognition, measurement and disclosure of stock-based compensation, and other stock-based payments. Under the provisions of CICA 3870, prior to January 1, 2004, companies could either measure the compensation cost of equity instruments issued under employee compensation plans using a fair value-based method or could recognize compensation cost using another method, such as the intrinsic value-based method. However, if another method was applied, pro forma disclosure of net income or loss and earnings or loss per share was required in the financial statements as if the fair value-based method had been applied. Effective January 1, 2004, CICA 3870 requires that all stock-based compensation be measured and expensed using a fair value-based methodology.

Prior to January 1, 2004, the Company recognized employee stock-based compensation under the intrinsic value-based method and provided pro forma disclosure of net income or loss and earnings or loss per share as if the fair value-based method had been applied. Effective January 1, 2004, the Company adopted the fair value-based method for recognizing employee stock-based compensation on a retroactive basis to January 1, 1996, without restatement of prior periods. At January 1, 2004, the cumulative effect of the change in accounting policy on prior periods resulted in a charge to accumulated deficit of \$13.6 million which represents the sum of the previously disclosed pro forma fair value adjustments with a corresponding increase to contributed surplus.

For the year ended December 31, 2004, the Company recorded stock-based compensation expense of \$1.2 million, which is included in general and administrative expenses. The fair value of the options granted in 2004 was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.84%; dividend rate of 0%; volatility factor of 0.75; and expected life of 2.5 years.

The Company issued 1.0 million stock options during the year ended December 31, 2004.

No compensation expense determined under fair value-based method for stock options was included in the determination of net loss for the year ended December 31, 2003, seven-month period ended December 31, 2002 and year ended May 31, 2002. For the year ended December 31, 2003, seven-month period ended December 31, 2002 and year ended May 31, 2002, the following table presents the Company’s pro forma net loss and net loss per share as if the fair value-based method of CICA 3870 had been applied for all stock options granted:

	<u>YEAR ENDED DECEMBER 31, 2003</u>	<u>SEVEN-MONTH PERIOD ENDED DECEMBER 31, 2002</u>	<u>YEAR ENDED MAY 31, 2002</u>
Net loss per Canadian GAAP.....	\$ (11,113)	\$ (44,438)	\$ (141,258)
Total pro forma stock-based compensation expense determined under fair value-based method.....	<u>(1,121)</u>	<u>(628)</u>	<u>(1,564)</u>
Pro forma net loss.....	<u>\$ (12,234)</u>	<u>\$ (45,066)</u>	<u>\$ (142,822)</u>
Basic and diluted net loss per share			
As reported.....	\$ (0.17)	\$ (0.70)	\$ (3.60)
Pro forma.....	\$ (0.19)	\$ (0.71)	\$ (3.64)

The fair value of the options granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 2.35% for 2003, 2.5% for the transitional period 2002 and 4.25% for fiscal 2002; dividend rate of 0%; volatility factor of 0.75 for 2003, 0.70 for the transitional period 2002 and 0.88 for fiscal 2002; and expected life of 2.5 years for 2003 and the transitional period 2002 and 4.0 years for fiscal 2002.

During the year ended May 31, 2002, the Company allowed the holders of outstanding TLC Vision Corporation stock options with an exercise price greater than \$8.688 (C\$13.69) to elect to reduce the exercise price of their options to \$8.688 (C\$13.69), in some cases by surrendering existing options for a greater number of shares than the number of shares issuable on exercise of each repriced option. For U.S. GAAP purposes, such modification which results in a change in the exercise price of the underlying stock options is subject to APB 25’s variable method of accounting for stock options. Variable accounting requires that differences between the price of the Company’s common shares at the end of each reporting period and the modified exercise price be charged to income as compensation expense over the remaining vesting period of the outstanding options. For the year

ended December 31, 2004, the Company recognized, for U.S. GAAP purposes, additional stock compensation expense of \$108,000 related to the modified stock options.

CICA 3870 does not require the application of variable method of accounting for stock options.

- (5) During fiscal 2002, the Company implemented a restructuring program to reduce employee costs in line with current revenue levels, close certain underperforming centers and eliminate duplicate functions caused by the merger with LaserVision. For Canadian GAAP purposes, this program resulted in total cost for severance and office closures of \$8.5 million, or \$0.2 million less than the total cost for U.S. GAAP purposes.
- (6) The Company changed its fiscal year-end from May 31 to December 31 effective June 1, 2002. Accordingly, the accompanying financial statements include the results of operations and cash flows for the seven-month period ended December 31, 2002. The following Canadian GAAP unaudited financial information for the twelve-month period ended December 31, 2002 and the seven-month period ended December 31, 2001 is presented for comparative purposes only:

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars except per share amounts)

	TWELVE-MONTH PERIOD ENDED DECEMBER 31,		SEVEN-MONTH PERIOD ENDED DECEMBER 31,	
	2003	2002 (UNAUDITED)	2002	2001 (UNAUDITED)
Revenues:				
Refractive:				
Centers.....	\$ 110,052	\$ 105,520	\$ 54,793	\$ 61,305
Access	36,140	25,371	21,495	--
Other healthcare services	49,488	33,714	23,866	8,995
Total revenues.....	<u>195,680</u>	<u>164,605</u>	<u>100,154</u>	<u>70,300</u>
Cost of revenues:				
Refractive:				
Centers.....	86,045	82,605	49,224	47,609
Access	25,424	18,103	15,356	--
Impairment of fixed assets.....	--	1,487	--	1,066
Other healthcare services	31,836	22,968	16,245	4,776
Total cost of revenues	<u>143,305</u>	<u>125,163</u>	<u>80,825</u>	<u>53,451</u>
Gross margin	<u>52,375</u>	<u>39,442</u>	<u>19,329</u>	<u>16,849</u>
General and administrative	31,968	37,555	24,824	23,664
Marketing.....	14,094	14,445	8,321	9,319
Amortization of intangibles	8,197	9,233	4,956	5,950
Research and development.....	1,598	4,000	2,000	--
Impairment of goodwill and other intangible assets	--	97,524	22,138	--
Adjustment to the fair value of investments and long-term receivables	(206)	7,098	2,095	21,079
Restructuring, severance and other charges	2,040	10,879	4,227	1,759
	<u>57,691</u>	<u>180,734</u>	<u>68,561</u>	<u>61,771</u>
Operating loss	(5,316)	(141,292)	(49,232)	(43,922)
Other income and (expense):				
Other income, net.....	669	6,996	6,996	--
Interest expense, net.....	(1,286)	(676)	(199)	(240)
Minority interests	(4,672)	(1,710)	(1,152)	(586)
Loss before income taxes.....	(10,605)	(136,682)	(43,587)	(45,748)
Income tax expense	(508)	(1,622)	(851)	(504)
Net loss	<u>\$ (11,113)</u>	<u>\$ (138,304)</u>	<u>\$ (44,438)</u>	<u>\$ (46,252)</u>
Net loss per share - basic and diluted.....	<u>\$ (0.17)</u>	<u>\$ (2.56)</u>	<u>\$ (0.70)</u>	<u>\$ (1.21)</u>
Weighted average number of common shares outstanding – basic and diluted.....	<u>64,413</u>	<u>54,077</u>	<u>63,407</u>	<u>38,064</u>

b) Management's Discussion and Analysis – Canadian Supplement

Management's Discussion and Analysis – Canadian Supplement ("Canadian Supplement") in this document is based on consolidated financial statements of TLC Vision Corporation prepared in accordance with U.S. GAAP. The Canadian Supplement has been prepared by management to provide an analysis of the impact of material differences that differ from U.S. GAAP on net income and trending analysis of the consolidated statements of operations.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO YEAR ENDED DECEMBER 31, 2003

Net income for the twelve months ended December 31, 2004 was \$40.9 million or \$0.57 per share compared to a net loss of \$11.1 million or \$0.17 per share for the twelve months ended December 31, 2003. The significant improvement in net income primarily resulted from significant growth in both the refractive and other healthcare services businesses and a gain on the sale of OccuLogix, Inc.'s common stock.

Amortization expense decreased to \$5.6 million for the twelve months ended December 31, 2004 from \$8.2 million for the twelve months ended December 31, 2003. The decrease was largely due to the reduction in Practice Management Agreements resulting from the deconsolidation of LECC.

Net cash provided by operating activities was \$35.4 million for the year ended December 31, 2004. The cash flows provided by operating activities during the year ended December 31, 2004 were primarily due to net income of \$40.9 million plus non-cash items including depreciation and amortization of \$19.5 million, minority interest expense of \$7.0 million, the write-off of investments related to research and development arrangements of \$0.8 million, compensation expense of \$1.6 million and the loss on sale of fixed assets of \$0.8 million. These cash flows were offset by an increase in net operating assets of \$5.0 million, a gain on sale of subsidiary stock of \$25.8 million, earnings from equity investments of \$2.1 million, an adjustment to the fair value of investments and long-term receivables of \$1.2 million and a gain on sale of interest in subsidiary of \$1.1 million. The increase in net operating assets consisted of a \$1.5 million increase in accounts receivable due primarily to higher revenues, a \$1.8 million increase in prepaid expenses and a \$1.7 million decrease in accounts payable and accrued liabilities.

TWELVE MONTHS ENDED DECEMBER 31, 2003 COMPARED TO THE TWELVE MONTHS DECEMBER 31, 2002

Net loss for the twelve months ended December 31, 2003 was \$11.1 million or \$0.17 per share compared to a net loss of \$138.3 million or \$2.56 per share for the twelve months ended December 31, 2002. The significant improvement in net loss resulted from the contribution of the full year of the LaserVision business in 2003, growth in both the refractive and other healthcare services businesses, a significant reduction in general and administrative charges and a \$106.4 million reduction in impairment of intangible assets and restructuring charges in fiscal 2003 from the prior year period.

Amortization expense decreased to \$8.2 million for the twelve months ended December 31, 2003 from \$9.2 million for the twelve months ended December 31, 2002. The decrease was largely a result of the significant impairment charges in 2002 that reduced the fair value of practice management agreements and the related ongoing amortization.

Net cash provided by operating activities was \$4.3 million for the year ended December 31, 2003. The cash flows provided by operating activities during the year ended December 31, 2003 were primarily due to net loss of \$11.1 million plus non-cash items including depreciation and amortization of \$24.4 million, minority interest expense of \$4.7 million and the write-off of investments related to research and development arrangements of \$1.6 million. These cash flows were offset by an increase in net operating assets of \$15.3 million, which consisted of a \$0.5 million increase in accounts receivable due primarily to higher revenues, a \$1.0 million increase in prepaid expenses and a \$13.8 million decrease in accounts payable and accrued liabilities. The decrease in accounts payable and accrued liabilities was primarily due to the Company paying its remaining obligation of \$5.1 million related to the LaserVision merger, reducing its contingent liability by settling two lawsuits for \$4.9 million, paying amounts to multiple state agencies to resolve sales tax disputes for a total of \$1.3 million and reducing its accounts payable balances with vendors and other accruals by an aggregate of \$2.0 million.

SEVEN MONTHS ENDED DECEMBER 31, 2002 COMPARED TO THE SEVEN MONTHS DECEMBER 31, 2001

Net loss for the seven months ended December 31, 2002 was \$44.4 million or \$0.70 per share compared to a net loss of \$46.3 million or \$1.21 per share for the seven months ended December 31, 2001. This decreased net loss primarily reflected the positive impact of the antitrust settlement and cost-cutting initiatives partially offset by the reduction in refractive procedures and

revenues. As a result of the LaserVision acquisition in May 2002, there were more common shares outstanding during the seven months ended December 31, 2002.

Amortization expense decreased to \$5.0 million for the seven months ended December 31, 2002 from \$6.0 million for the seven months ended December 31, 2001. The decrease was largely a result of the significant impairment charge in May 2002, which reduced the fair value of practice management agreements and the related ongoing amortization.

Net cash provided by operating activities was \$8.8 million for the seven months ended December 31, 2002. The cash flows provided by operating activities during the seven months ended December 31, 2002 were primarily due to net loss of \$44.4 million plus non-cash items including depreciation and amortization of \$15.0 million, minority interest expense of \$1.2 million, impairment of goodwill and other intangible assets of \$22.1 million, loss on sale of fixed assets of \$1.8 million, a decrease in net operating assets of \$6.4 million, an adjustment to the fair value of investments and long-term receivables of \$2.1 million, restructuring and other costs of \$2.3 million and the write-off of investments related to research and development arrangements of \$2.0 million. The decrease in net operating assets consisted of a \$3.8 million decrease in accounts receivable and a \$7.2 million decrease in prepaid expenses offset by a \$4.6 million decrease in accounts payable and accrued liabilities.

- c) For comparative purposes, the following tables illustrate previously filed financial statements in accordance with both Canadian GAAP and U.S. GAAP as of and for the year ended December 31, 2003, for the seven-month period ended December 31, 2002 and for the year ended May 31, 2002. Differences between Canadian GAAP and U.S. GAAP are described above.

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars except per share amounts)

	<u>YEAR ENDED</u> <u>DECEMBER 31, 2003</u>		<u>SEVEN-MONTH PERIOD</u> <u>ENDED DECEMBER 31,</u> <u>2002</u>		<u>YEAR ENDED MAY 31,</u> <u>2002</u>	
	<u>Canadian</u>	<u>U.S. GAAP</u>	<u>Canadian</u>	<u>U.S. GAAP</u>	<u>Canadian</u>	<u>U.S. GAAP</u>
	<u>GAAP</u>		<u>GAAP</u>		<u>GAAP</u>	
Revenues:						
Refractive:						
Centers	\$ 110,052	\$ 110,052	\$ 54,793	\$ 54,793	\$ 112,909	\$ 112,909
Access	36,140	36,140	21,495	21,495	2,999	2,999
Other healthcare services	49,488	49,488	23,866	23,866	18,843	18,843
Total revenues	<u>195,680</u>	<u>195,680</u>	<u>100,154</u>	<u>100,154</u>	<u>134,751</u>	<u>134,751</u>
Cost of revenues:						
Refractive:						
Centers	86,045	86,045	49,224	49,224	81,911	81,911
Access	25,424	25,424	15,356	15,356	1,826	1,826
Impairment of fixed assets	--	--	--	--	2,553	2,553
Other healthcare services	31,836	31,836	16,245	16,245	11,499	11,499
Total cost of revenues	<u>143,305</u>	<u>143,305</u>	<u>80,825</u>	<u>80,825</u>	<u>97,789</u>	<u>97,789</u>
Gross margin	<u>52,375</u>	<u>52,375</u>	<u>19,329</u>	<u>19,329</u>	<u>36,962</u>	<u>36,962</u>
General and administrative	31,968	31,668	24,824	24,567	37,565	36,382
Marketing	14,094	14,094	8,321	8,321	15,296	15,296
Research and development	1,598	1,598	2,000	2,000	2,000	2,000
Amortization of intangibles	8,197	6,685	4,956	4,074	10,227	10,227
Impairment of goodwill and other intangible assets	--	--	22,138	22,138	75,386	81,720
Adjustment to the fair value of investments and long-term receivables	(206)	(206)	2,095	2,095	26,082	26,082
Restructuring, severance and other charges	2,040	2,040	4,227	4,227	8,528	8,750
	<u>57,691</u>	<u>55,899</u>	<u>68,561</u>	<u>67,422</u>	<u>75,084</u>	<u>180,457</u>
Operating loss	(5,316)	(3,524)	(49,232)	(48,093)	(138,122)	(143,495)
Other income, net	669	669	6,996	6,996	--	--
Interest expense, net	(1,286)	(1,364)	(199)	(243)	(717)	(761)
Minority interests	(4,672)	(4,672)	(1,152)	(1,152)	(635)	(635)
Loss before income taxes and cumulative effect of accounting change	(10,605)	(8,891)	(43,587)	(42,492)	(139,474)	(144,891)
Income tax expense	(508)	(508)	(851)	(851)	(1,784)	(1,784)
Loss before cumulative effect of accounting change	<u>\$ (11,113)</u>	<u>\$ (9,399)</u>	<u>\$ (44,438)</u>	<u>\$ (43,343)</u>	<u>\$ (141,258)</u>	<u>\$ (146,675)</u>
Cumulative effect of accounting change	--	--	--	--	--	(15,174)
Net loss	<u>\$ (11,113)</u>	<u>\$ (9,399)</u>	<u>\$ (44,438)</u>	<u>\$ (43,343)</u>	<u>\$ (141,258)</u>	<u>\$ (161,849)</u>
Net loss per share – basic and diluted	<u>\$ (0.17)</u>	<u>\$ (0.15)</u>	<u>\$ (0.70)</u>	<u>\$ (0.68)</u>	<u>\$ (3.60)</u>	<u>\$ (4.13)</u>
Weighted average number of common shares outstanding – basic and diluted	64,413	64,413	63,407	63,407	39,215	39,215

TLC VISION CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)

	DECEMBER 31, 2003	
	<u>Canadian GAAP</u>	<u>U.S. GAAP</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 21,580	\$ 21,580
Short-term investments	8,748	8,748
Accounts receivable	15,617	15,617
Prepays and other current assets.....	<u>11,812</u>	<u>11,646</u>
Total current assets.....	57,757	57,591
Restricted cash.....	1,376	1,376
Investments and other assets	4,078	3,102
Intangibles, net	26,899	22,959
Goodwill, net.....	48,829	48,829
Fixed assets, net.....	<u>55,364</u>	<u>56,891</u>
Total assets	<u>\$ 194,303</u>	<u>\$ 190,748</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 10,627	\$ 10,627
Accrued liabilities	25,811	25,811
Current portion of long-term debt	<u>10,348</u>	<u>10,285</u>
Total current liabilities	46,786	46,723
Other long-term liabilities	2,607	2,607
Long term-debt, less current maturities.....	20,155	19,242
Minority interests	10,907	10,907
SHAREHOLDERS' EQUITY		
Capital stock.....	397,878	397,878
Option and warrant equity.....	7,921	8,143
Accumulated deficit	<u>(291,951)</u>	<u>(294,752)</u>
Total shareholders' equity.....	<u>113,848</u>	<u>111,269</u>
Total liabilities and shareholders' equity	<u>\$ 194,303</u>	<u>\$ 190,748</u>

TLC VISION CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands of U.S. dollars)

	YEAR ENDED DECEMBER 31, 2003		SEVEN-MONTH PERIOD ENDED DECEMBER 31, 2002		YEAR ENDED MAY 31, 2002	
	Canadian	U.S. GAAP	Canadian	U.S. GAAP	Canadian	U.S. GAAP
	GAAP		GAAP		GAAP	
Net loss.....	\$ (11,113)	\$ (9,399)	\$ (44,438)	\$ (43,343)	\$ (141,258)	\$ (161,849)
Adjustments to reconcile net loss to net cash from operating activities:						
Depreciation and amortization.....	24,385	22,593	15,001	13,862	21,513	21,352
Write-off of investment in research and development arrangement.....	1,598	1,598	2,000	2,000	2,000	2,000
Minority interests.....	4,672	4,672	1,152	1,152	107	107
Loss (gain) on sales and disposals of fixed assets.....	(484)	(484)	1,770	1,770	1,965	1,136
Adjustment to the fair value of investments and long-term receivables and impairment of fixed assets.....	(206)	(206)	2,095	2,095	28,635	28,635
Impairment of goodwill and other intangible assets.....	--	--	22,138	22,138	75,386	81,720
Non-cash compensation expense.....	125	125	445	445	866	866
Non-cash restructuring and other costs.....	677	677	2,266	2,266	2,281	2,503
Changes in operating assets and liabilities:						
Accounts receivable.....	(489)	(489)	3,836	3,836	1,592	1,592
Prepaid expenses and other current assets.....	(1,042)	(964)	7,124	7,168	417	417
Accounts payable and accrued liabilities.....	(13,831)	(13,831)	(4,574)	(4,574)	6,321	6,321
Cash from operating activities.....	<u>4,292</u>	<u>4,292</u>	<u>8,815</u>	<u>8,815</u>	<u>(219)</u>	<u>(26)</u>
INVESTING ACTIVITIES						
Purchases of fixed assets.....	(4,433)	(4,433)	(3,668)	(3,668)	(2,297)	(2,297)
Proceeds from sale of fixed assets.....	578	578	751	751	89	89
Proceeds from divestitures of investments and subsidiaries, net of cash.....	221	221	259	259	777	777
Investment in research and development arrangements.....	(1,598)	(1,598)	(2,000)	(2,000)	(2,000)	(2,000)
Acquisitions and investments, net of cash acquired.....	(8,015)	(8,015)	(9,695)	(9,695)	(5,424)	(5,424)
Cash acquired in Laser Vision Centers, Inc. acquisition.....	--	--	--	--	7,319	7,319
Proceeds from short-term investments.....	15,709	15,709	556	556	6,058	6,058
Purchases of short-term investments.....	(21,050)	(21,050)	(1,850)	(1,850)	--	--
Other.....	(229)	(229)	(32)	(32)	249	56
Cash from investing activities.....	<u>(18,817)</u>	<u>(18,817)</u>	<u>(15,679)</u>	<u>(15,679)</u>	<u>4,771</u>	<u>4,578</u>
FINANCING ACTIVITIES						
Restricted cash movement.....	2,599	2,599	1,013	1,013	(3,369)	(3,369)
Principal payments of debt financing and capital leases.....	(8,018)	(8,018)	(5,140)	(5,140)	(7,098)	(7,098)
Proceeds from debt financing.....	3,450	3,450	1,750	1,750	5,788	5,788
Distributions to minority interests.....	(4,901)	(4,901)	(1,532)	(1,532)	(3,092)	(3,092)
Purchase of treasury stock.....	--	--	(191)	(191)	--	--
Proceeds from the issuance of common stock.....	8,744	8,744	121	121	306	306
Cash from financing activities.....	<u>1,874</u>	<u>1,874</u>	<u>(3,979)</u>	<u>(3,979)</u>	<u>(7,465)</u>	<u>(7,465)</u>
Net decrease in cash and cash equivalents during the period.....	(12,651)	(12,651)	(10,843)	(10,843)	(2,913)	(2,913)
Cash and cash equivalents, beginning of period.....	34,231	34,231	45,074	45,074	47,987	47,987
Cash and cash equivalents, end of period.....	<u>\$ 21,580</u>	<u>\$ 21,580</u>	<u>\$ 34,231</u>	<u>\$ 34,231</u>	<u>\$ 45,074</u>	<u>\$ 45,074</u>

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Shareholder Information

U.S. Corporate Office

TLC Vision Corporation
540 Maryville Centre Drive, Suite 200
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T: (314) 434-6900
T: 1-888-289-5824
F: (314) 434-7294

International Corporate Office

TLC Vision Corporation
5280 Solar Drive, Suite 100
Mississauga, Ontario L4W 5M8
T: (905) 602-2020
T: 1-800-852-1033
F: (905) 602-2025

Transfer Agent and Shareholder Records

Shareholders requiring information or assistance regarding individual stock records or stock certificates should contact the Transfer Agent:

The CIBC Mellon Trust Company
T: 1-800-387-0825

Independent Auditors

Ernst & Young LLP

Stock Exchange Listing

Shares of the Corporation are listed on the NASDAQ National Market and the Toronto Stock Exchange.

Trading Symbols

NASDAQ – TLCV
TSX – TLC

On the Internet

Interested investors may browse TLC*Vision's* website at www.tlcv.com to obtain regularly updated information including press releases, webcasts, share trading data, quarterly reports and financial statements.

Investor Relations

Shareholders, analysts, investment professionals, members of the media and potential investors who would like information about TLC*Vision's* activities should contact:

E-mail: investor.relations@tlcvision.com

Anna Austin

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of Corporate Communications*
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Ian Chadsey

Investor Relations Manager
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Form 10-K

Additional copies of the Company's Annual Report on Form 10-K (without exhibits) are available from the Company at no charge. Requests should be directed to Cindy Stahl, Communications Specialist, at the Company's U.S. corporate office.

Annual and Special Meeting

The Company's annual and special meeting of shareholders is scheduled for June 23, 2005, at 9:00 a.m. Eastern Time at the Toronto Stock Exchange Broadcast & Conference Centre Auditorium, 130 King Street West, Toronto, Ontario.



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