Annual Report and Form 10-K

2001

Eyes Wide Open

It Happens Here

TLC Locations

American

Brea, CA
Newport Beach, CA
Ontario, CA
Palm Desert, CA
Sacramento, CA
Silicon Valley, CA
Torrance, CA
Denver, CO
Boca Raton, FL
Fairfield, CT
Ft. Lauderdale, FL
Miami, FL
Tampa, FL
Atlanta, GA
Chicago, IL
Indianapolis, IN
Waltham (Boston), MA
Annapolis, MD
Baltimore, MD
Rockville, MD
Ann Arbor, MI
Detroit, MI
Kalamazoo, MI
Lansing, MI
Minneapolis, MN
St. Louis, MO
Billings, MT
Charlotte, NC
Raleigh, NC
Elmwood Park, NJ
Mt. Laurel, NJ
Las Vegas, NV
Albany, NY
Garden City, NY
Manhattan, NY
White Plains, NY
Cleveland, OH
Columbus, OH
Oklahoma City, OK
Tulsa, OK
Pittsburgh, PA
Plymouth Meeting, PA
Charleston, SC
Greenville, SC
Johnson City, TN
Arlington, TX
Austin, TX
Houston, TX
San Antonio, TX
Fairfax, VA
Reston, VA
Madison, WI
Milwaukee, WI

Canadian

Moncton, NB
Toronto, ON*
London, ON
Waterloo, ON
Windsor, ON

* Two Centers

TLC owns and operates refractive centers throughout North America and is the largest provider of excimer laser eye surgery services. Laser eye surgery corrects common refractive disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. TLC's core business is providing laser eye surgery in partnership with its affiliated network of more than 12,500 well-trained and experienced doctors.

Elias Vamvakas
Chairman and Chief Executive Officer

TLC's success comes from our strategy, our focus, and our strong partnerships with doctors.

Fiscal 2001 was yet another year in which we maintained our position as the leading premium provider in the fast growing and quick changing laser eye surgery industry.

We Went into Fiscal 2001 with Our Eyes Wide Open.

Just six days into the year, TLC announced its strategic decision not to participate in an escalating price war that had engulfed the laser eye surgery industry.

The foundation for that choice was, however, laid some time earlier.

When we opened our first center more than eight years ago, we saw our core competence as TLC's ability to bring patients together with some of the best-trained and most experienced doctors.

We have never wavered from the belief that superior quality of care and outstanding clinical results will be the long-term determinants of success in this business. That conviction has always driven TLC to put patients first and to strive to be the best.

We knew that refusing to compromise in the midst of such industry turmoil wasn't necessarily the most expedient choice. We also anticipated that TLC would face mounting demands from all sides to alter our course. Despite both external pressures and internal temptations, we let ourselves be guided by TLC's core values:

- Integrity
- We do what is right
- We always seek to improve
- We accept personal responsibility

Building respect and trust – TLC is known for its honesty and integrity. This has enabled us to hire, and partner with, some of the most respected people in the industry – people that are the drivers of our continued success.

Doing the right thing – By refusing to compete primarily on price, by partnering with local doctors and not competing with them, and by always putting patient care first, TLC has built an enduring brand and maintained our leadership position in this exciting industry.

59 centers. 700 surgeons. 12,500 affiliated doctors. 200,000 satisfied patients. 1 Tiger.

Striving to improve – Recognizing the Company was operating in a new competitive and economic environment, a comprehensive performance improvement program designed to maximize revenues and reduce operating costs was successfully launched mid-way through the year. Total operating expenses for the fourth quarter of fiscal 2001 improved by 36% from the same period a year ago.

Taking things personally – Our emphasis on putting patient care first has had an incredible effect on both the clinical results that our patients have experienced and the very large number of referrals that have resulted. This has provided a solid foundation for the growth of our business. The daily rewards from thankful patients affect the hearts and souls of our employees. They strive for excellence because they know they are helping to improve the quality of patients' lives.

The Strategy

Sticking to our core principles was necessary but not sufficient to ensure success. Throughout the industry tumult, TLC focused on enhancing the competitive strengths that drive our leadership position.

Throughout the year, we worked to:

- Continue to provide the highest level of patient care
- Build the industry leading TLC brand
- Maximize channels of patient access
- Increase operating leverage by reducing costs
- Deploy advanced information systems
- Continue to bring new clinical technologies to market; focusing on proprietary advantage

Financial Strength

TLC has been able to maintain its market leadership while building on its strong financial position. At May 31, 2001, our cash and marketable securities stood at US$54 million. Total short and long-term debt was US$15.1 million, comprised mostly of leases for our medical equipment. TLC's debt/equity ratio was 0.08:1 (8%) and our quick ratio stood at 2.2:1. This gives the Company the financial strength to continue to lead the industry going forward.

Managing Our Way through a Difficult Environment

TLC's net revenues in fiscal 2001 were US$174 million. Including the effects of non-cash charges relating to the amortization of goodwill and intangibles from acquisitions, along with restructuring and other one-time charges,

TLC's affiliated doctor network includes more than 25% of all practicing optometrists in the U.S.

the net EPS loss in fiscal 2001 was ($1.00) compared to a net EPS loss of ($0.16) in fiscal 2000.

Despite the turmoil that gripped the industry throughout the period, TLC managed to generate $15 million in cash from operating activities in fiscal 2001.

Stability Is Returning to the Industry

With much publicity, the two largest "deep discounters", and arguably the instigators of the industry price war, declared bankruptcy in the latter part of the year. Ironically, we believe they will be the only major casualties claimed by the "below-cost" pricing strategy they embraced in an attempt to gain market share.

For the first time in more than a year, the average price across the entire industry has started to move slowly upwards.

Research Supports Our Positioning

Over the winter, TLC commissioned a comprehensive market study to ensure that we were offering and delivering what consumers wanted in a laser eye surgery services provider. In order to capture as accurate a portrait as possible, we were careful to include prospective patients, past TLC patients and past non-TLC patients in the study. The research included a telephone survey of 1,000 adults; nine focus groups in four cities; an on-line survey of more than 1,100 people; and interviews with dozens of TLC staff, affiliates and surgeons.

I'm pleased to report that the key findings supported TLC's positioning as a premium provider. In fact:

- Approximately 2/3 of the sample population said they would pay in excess of $1,500 per eye
- More than 50% of the sample population actually demonstrated an aversion to discount pricing
- Only 15% of the sample population mentioned price as primary motivator
- Approximately 93% of the total pretax profit pool in 2005 will be captured by providers charging more than $1,500 per eye

Those providers that continue to compete on price seem to be quickly rising to the $1,000 minimum per eye level. As they continue to compete for, what we believe to be the least attractive segment of the market going forward, TLC is left almost alone amongst the corporate providers at the high end – with superior levels of care and service, The TLC Lifetime Commitment℠ to patients, and a strong partnership with many of the best doctors in North America.

Our strength is derived from the relationships we build.

The Size of the Potential Market Remains Tremendous.

Our industry was literally just "invented" in the U.S. about six years ago – and look at us now! Laser eye surgery has already become the most widely performed surgical procedure in the country. That growth has surpassed everyone's expectations and we have only just scratched the surface of this market's tremendous potential. More than 145 million people in the U.S. have vision correction needs. To date, only an estimated 2% to 3% of this target population have actually had the procedure, leaving an enormous untapped market.

Looking Forward

Our goal in fiscal 2002 is to be the most successful laser eye surgery services provider in the world. We define success as having:

- The best reputation
- The best outcomes
- The best profitability

As the industry begins the welcome process of healing, rebuilding, and reinvigorating itself, we intend to continue to provide it with leadership. Internally, our focus will remain on providing superior quality of care and clinical outcomes while maximizing revenues and controlling costs.

As you can see, we are all very excited about our future. TLC is the No. 1 company in an industry that has enjoyed astronomical growth in the past and looks forward to more in the future. This presents us with tremendous opportunities and we have a strong management team that will help us take advantage of them.

We look forward to yet another exciting year.

Elias Vamvakas (signed)
Chairman and Chief Executive Officer

July 12, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED MAY 31, 2001
COMMISSION FILE NUMBER: 0-29302

TLC LASER EYE CENTERS INC.
(Exact name of registrant as specified in its charter)

Ontario, 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)	**L4W 5M8** (Zip Code)
Registrant's telephone, including area 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. X 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. [ ]

As of July 31, 2001, the aggregate market value of the registrant's Common Shares held by non-affiliates of the registrant was approximately $150.3 million.

As of July 31, 2001, there were 38,048,748 of the registrant's Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Definitive Proxy Statement for the Company's 2001 annual shareholder's 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 can 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 the "Risk Factors" section of Item 1 "Business" 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 "TLC" shall mean TLC Laser Eye Centers Inc. and its subsidiaries. The Company's fiscal year ends on May 31. Therefore, references in this Form 10-K to a particular fiscal year shall mean the 12 months ended on May 31 in that year. 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 Laser Eye Centers Inc. ("TLC" or the "Company") is one of the largest providers of laser vision correction services in North America. TLC owns and manages eye care centers which, together with TLC's network of over 12,500 eye care doctors, provide laser vision correction of common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. Laser vision correction is an out-patient procedure that is designed to change the curvature of the cornea to reduce or eliminate a patient's reliance on eyeglasses or contact lenses. TLC, which commenced operations in September 1993, currently has 59 eye care centers in 26 states and provinces throughout the United States and Canada. More than 350,000 paid refractive procedures have been performed at TLC centers, including over 122,800 performed at the Company's centers during fiscal 2001.

In the past year, TLC affirmed its strategy to position itself as a premium provider of laser vision correction services in the face of an industry price war. The Company believes that superior quality of care and outstanding clinical results will be the long-term determinants of success in the laser vision correction industry.

To this end, the Company's focus has remained on maximizing revenues, controlling costs, providing superior quality of care and clinical results and pursuing additional growth opportunities for the premium business.

On August 27, 2001, the Company announced that it had entered into an Agreement and Plan of Merger with Laser Vision Centers, Inc. ("Laser Vision"). Laser Vision provides access to excimer lasers, microkeratomes, other equipment and value added support services to eye surgeons for laser vision correction and the treatment of cataracts. The merger will be effected as an all-stock combination at a fixed exchange rate of 0.95 common shares of the Company for

each of the approximately 25.9 million outstanding shares of common stock of Laser Vision. In addition, each of the approximately 7.8 million outstanding options or warrants to acquire stock of Laser Vision shall be assumed by the Company and become options or warrants to acquire common shares of the Company based on the 0.95 exchange rate. The merger is expected to be effected on a tax-free basis to shareholders and accounted for under the purchase method. The Company's Chairman and Chief Executive Officer, Elias Vamvakas, will be the Chairman and Chief Executive Officer of the merged company . John J. (Jack) Klobnak, Laser Vision's current Chairman and CEO, will assume a non-executive Vice Chairmanship and continue as a corporate director for approximately one year, after which time he intends to retire. James Wachtman, President and Chief Operating Officer of Laser Vision will serve as the merged company's President & Chief Operating Officer. The merged company's Chief Financial Officer will be Charles Bono, who is currently Chief Financial Officer of Laser Vision. The board of directors of the merged company is expected to be composed of members from both companies' current boards of directors. Completion of the transaction, expected to occur in December, 2001, is subject to shareholder and regulatory approval and other conditions usual and customary in such transactions.

Industry Background

Refractive Disorders

The primary function of the human eye is to focus light. The eye works much like a camera: light rays enter the eye through the cornea, which provides most of the focusing power. Light then travels through the lens where it is fine-tuned to focus properly on the retina. The retina, located at the back of the eye, acts like the film in the camera, changing light into electric impulses that are carried by the optic nerve to the brain. To see clearly, light must be focused precisely on the retina. Refractive disorders, such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism, result from an inability of the cornea and the lens to focus images on the retina properly. The amount of refraction required to properly focus images depends on the curvature of the cornea and the size of the eye. If the curvature is not correct, the cornea cannot properly focus the light passing through it onto the retina, and the viewer will see a blurred image.

Surgical Procedures

Refractive disorders have historically been treated primarily by eyeglasses or contact lenses. Increasingly, they are being treated by surgical techniques, the most common of which in the United States, prior to the excimer laser being approved for sale for laser vision correction, was Radial Keratotomy ("RK"). RK is a surgical procedure, first performed in the 1970s, that corrects myopia by altering the shape of the cornea. This is accomplished by making incisions in a "radial" pattern along the outer portion of the cornea using a hand-held diamond-tipped blade. These very fine incisions are designed to help flatten the curvature of the cornea, thereby allowing light rays entering the eye to properly focus on the retina. The incisions penetrate 90% of the depth of the cornea. Because RK involves incisions into the corneal tissue, it may weaken the structure of the cornea, which can have adverse consequences following traumatic injury. RK also produces incisional scarring, and may cause fluctuation of vision and progressive

farsightedness. Industry sources estimate that in 1994 over 200,000 RK procedures were performed in the United States. A variation of RK, Astigmatic Keratotomy, is used to correct astigmatism.

Laser Vision Correction

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 correct vision disorders by changing the curvature of the cornea. There are currently two procedures that use the excimer laser to correct vision disorders: Photorefractive Keratectomy ("PRK") and Laser In-Situ Keratomileusis ("LASIK"). In the case of both PRK and LASIK, prior to the procedure, the doctor makes an assessment of the exact correction required and programs the excimer laser. 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. Both PRK and LASIK are performed on an outpatient basis without general anesthesia, using only topical anesthetic eye drops. An eyelid holder is inserted to prevent blinking while the eye drops eliminate the reflex to blink. The patient reclines in a chair, his or her eye focused on a fixation target, and the surgeon positions the patient for the procedure. The surgeon uses a foot pedal to apply the excimer laser beam, which 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 15 to 90 seconds.

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 (the "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 the approval of the Summit Autonomous, Inc. (now Alcon Laboratories Inc. division of Nestle, S.A.) ("Alcon") laser for the treatment of myopia granted in 1995. Figures 1 and 2 set out a list of lasers approved for LASIK and PRK and other procedures as of March 29, 2001. In Canada, 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 ("HPB").

Figure 1
FDA-Approved lasers for LASIK

Company and Model	Approval Number and Date	Approved Indications (D = Diopters)
Autonomous Technology - LADARVision	P970043/S5 5/9/00	Myopia less than –9.0D with or without astigmatism from –0.5 to –3.0D
Bausch & Lomb Surgical -Technolas 217a	P990027 2/23/00	Myopia from –1.0 to –7.0D with or without astigmatism less than –3.0D
CRS/VISX -Start S2	P990010 11/9/99	Myopia less than –14.0D with or without astigmatism between –0.5 to –5.0D
Dishler	P970049 12/16/99	Myopia from –0.5 to –13.0D with or without astigmatism between –0.5 to –4.0D
Kremer	P970005 7/30/98	Myopia from –1.0 to –15.9D with or without astigmatism less than –5.0D
Nidek -EC5000	P970053/S2 4/14/00	Myopia from –1.0 to –14.0D with or without astigmatism less than 4.0D
Summit -Apex Plus	P930034/S13 10/21/99	Myopia less than –14.0D with or without astigmatism from 0.5 to 5.0D
Summit Autonomous -LADARVision	P970043/S7 9/22/00	Hyperopia less than 6.0D with or without astigmatism less than –6.0D

Figure 2
FDA-Approved Lasers for PRK and Other Refractive Surgeries

Company and Model	Approval Number and Date	Approved Indications (D = Diopters)
Bausch & Lomb Surgical - Keracor 116	P970056 9/28/99	PRK; Myopia from - 1.5 to - 7.0D with or without astigmatism less than - 4.5D
Autonomous Technology - LADARVision	P970043 11/2/98	PRK; Myopia from - 1.0 to - 10.0D with or without astigmatism less than - 4.5D
LaserSight - LaserScan LSX	P980008 11/12/99	PRK; Myopia from - 1.0 to - 6.0D with or without astigmatism less than 1.0D
Nidek - EC5000	P970053 12/17/98	PRK; Myopia from - 0.75 to - 13.0D
Nidek - EC5000	P970053/S1 9/29/99	PRK; Myopia from - 1.0 to - 8.0D with or without astigmatism from - 0.5 to -4.0D
Summit - Apex & Apex Plus	P930034 10/25/98	PRK; Myopia from - 1.5 to - 7.0D
Summit - Apex Plus	P930034/S9 3/11/98	PRK; Myopia from -1.0 to -6.0D with or without astigmatism from -1.0 to -4.0D
Summit - Apex Plus	P930034/S12 12/21/99	PRK; Hyperopia from + 1.5 to + 4.0D with or without astigmatism less than - 1.0D
Summit Autonomous - LADARVision	P970043/S8 7/11/00	Name Change Only
Sunrise	P99078	Laser Thermokeratoplasty (LTK);

-Hyperion	6/30/00	Hyperopia from + 0.75 to + 2.5D with or without astigmatism less than 0.75D
VISX - Model B & C (Star & Star S2)	P930016 3/27/96	PRK; Myopia from 0 to - 6.0D
VISX - Model B & C (Star & Star S2)	P930016/S3 4/24/97	PRK; Myopia from 0 to - 6.0D with or without astigmatism from - 0.75 to - 4.0D
VISX - Model B & C (Star & Star S2)	P930016/S5 1/29/98	PRK; Myopia from 0 to - 12.0D with or without astigmatism from 0 to - 4.0D
VISX - Star S2	P930016/S7 11/2/98	PRK; Hyperopia from + 1.0 to + 6.0D
VISX Star S3 (EyeTracker)	P990010/S1 4/20/00	Same as S2, except with eye tracker
VISX - Star S2 & S3	P930016/S10 10/18/00	PRK; Hyperopia from + 0.5 to + 5.0D with or without astigmatism + 0.5 to + 4.0D

Source: U.S. Food and Drug Administration fda.gov website

Photorefractive Keratectomy

With PRK, no scalpels are used and no incisions are made. The surgeon prepares the eye by gently removing the surface layer of the cornea called the epithelium. The surgeon then applies the excimer laser beam, reshaping the curvature of the cornea. Deeper cell layers remain virtually untouched. Since a layer typically about as slender as a human hair is removed, the cornea maintains its original strength. A clear contact lens bandage is then placed on the eye to protect it. Following PRK, a patient typically experiences blurred vision and discomfort until the epithelium heals. A patient usually experiences a substantial improvement in clarity of vision within a few days following PRK, normally seeing well enough to drive a car within one to two weeks. However, it generally takes one month, but may take up to six months, for the full benefit of PRK to be realized.

PRK has been used commercially since 1988 and industry sources estimate that to date over one million PRK procedures have been performed worldwide. Clinical trials conducted by Alcon prior to receiving FDA approval for the sale of its excimer laser showed that one year after the PRK procedure, approximately 81% of the patients could see 20/20 or better and approximately 99% could see 20/40 or better (the minimum level required to drive without corrective lenses in most states). Clinical data submitted to the FDA by Alcon has shown that patient satisfaction is very high with over 95% indicating they would enthusiastically recommend PRK to a friend. In addition, a study published in the February, 1998 issue of *Ophthalmology* reported the results of 83 patients in the United Kingdom who underwent PRK for myopia of up to 7 diopters in 1989. The study found that the patients experienced stable vision and the majority of patients experienced no side effects. No complications were observed such as cataracts, retinal detachment or long term elevated intraocular pressure and no patients developed an infection.

Laser In-Situ Keratomileusis

LASIK came into commercial use in Canada in 1994 and in the United States in 1996. In LASIK, an automated microsurgical instrument called a microkeratome is used to create a thin corneal flap which remains hinged to the eye. The corneal flap is 160 to 180 microns thick, about 30% of the corneal thickness. Patients do not feel or see the cutting of the corneal flap, which takes only a few seconds. The corneal flap is then flipped back and excimer laser pulses are applied to the inner stromal layers of the cornea to treat the eye with the patient's prescription. The corneal flap is then closed and the flap and interface rinsed. Once the procedure is completed, most surgeons wait two to three minutes to ensure the corneal flap has fully re-adhered. At this point, patients can blink normally and the corneal flap remains secured in position by the natural suction within the cornea. Since the surface layer of the cornea remains intact with LASIK, no bandage contact lens is required and the patient experiences virtually no discomfort. LASIK has the advantage of more rapid recovery than PRK, with most typical patients seeing well enough to drive a car the next day and healing completely within one to three months. Currently, the majority of laser vision correction procedures in the United States and Canada are LASIK. More than 90% of the excimer laser procedures currently performed at the Company's eye care centers are LASIK. The Company's medical directors believe LASIK generally allows for more precise correction than PRK for higher levels of myopia and hyperopia (with or without astigmatism), greater predictability of results and decreased probability of regression.

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, an industry source estimates that approximately 50% of the United States population or 145 million people suffer from some form of refractive disorder requiring vision correction including myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. To date, only an estimated two to three percent of this target population has actually had laser vision correction.

Industry sources estimate that 105,000 laser vision correction procedures were performed in the United States in 1996, 215,000 were performed in 1997, 480,000 were performed in 1998, 700,000 were performed in 1999, 1.4 million were performed in 2000 and 1.7 million will be performed in 2001. Laser eye surgery has become the most widely performed surgical procedure in North America. The Company believes that its profitability and growth will depend upon continued increasing acceptance of laser vision correction in the United States and, to a lesser extent, Canada and competition.

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 unfavourable publicity involving patient outcomes from laser vision correction could also adversely affect its acceptance whether or not the procedures are performed at TLC eye care centers. Market acceptance could also 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.

TLC Laser Eye Centers Inc.

TLC was 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 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.

The Company owns and manages eye care centers throughout North America and, together with its network of over 12,500 eye care doctors, specializes in laser vision correction services to correct common refractive vision disorders such as myopia (nearsightedness), hyperopia (farsightedness) and astigmatism. The Company is one of the largest providers of laser vision correction services in North America.

TLC began operations in September 1993 when it opened an eye care center in Windsor, Ontario, Canada. TLC currently owns or operates 59 eye care centers in 26 states and provinces throughout the United States and Canada. See Item 2 “Properties” for a current list of the Company’s eye care centers.

More than 90% of the excimer laser procedures currently performed at the Company’s eye care centers are LASIK. The Company’s medical directors believe LASIK generally allows for more precise correction than PRK for higher levels of myopia and hyperopia (with or without astigmatism), greater predictability of results and decreased probability of regression. TLC considers itself a clinical leader in the field of vision correction procedures. TLC’s medical directors continually evaluate new vision correction technologies and procedures and seek to ensure that patients at TLC’s eye care centers are receiving the highest quality vision care.

Expansion Plans

Overview

After a year of industry turmoil instigated by providers who treated laser vision correction as a commodity and employed deep discount pricing strategies in an effort to gain market share, the

Company believes that the industry turmoil is subsiding and that the average price per procedure across the industry is stabilizing. Based on estimates that only two to three percent of the 145 million people in the United States who have some type of refractive disorder have had laser vision correction, the Company believes that the potential for growth remains strong.

In response to the recent industry turmoil and deep discounting price war, the Company retained the services of a national consulting firm and undertook an extensive review of its internal structures, market position, resources and future strategies. That review supported the Company's decision to maintain its premium brand model and not participate in the industry price war. TLC decided that its focus would remain on maximizing revenues through the Company's co-management model and innovative marketing programs, controlling costs without compromising superior quality of care and clinical outcomes and pursuing additional growth opportunities for its core laser vision correction business through its TLC Affiliate Centers Program and strategic acquisitions.

Maximizing Revenues

Co-Management Model

The Company has developed and implemented a co-management model under which it not only establishes and operates 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. The primary care doctors assess candidates for laser vision correction and provide pre- and post-operative care, including an initial eye examination and a minimum of six follow-up visits. The co-management model permits the eye care center surgeon to focus on providing laser vision correction surgery while the primary care doctor provides pre- and post-operative care. In addition, each TLC center has 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."

TLC believes that its relationship with its more than 12,500 affiliated eye care doctors, though non-exclusive, represents an important competitive advantage. The Company believes that its affiliated doctor network, which includes approximately 25% of the licensed practicing optometrists in the United States, is the largest such network in the laser vision correction field.

TLC believes that a primary care doctor's relationship with TLC and the doctor's 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 a minimum of six 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.

Marketing Programs

TLC's "Lifetime Commitment" program, established in mid-1997, entitles patients within a certain range of vision correction to have enhancement procedures at no cost at any time during their lifetime for further correction, if necessary. To remain eligible for the program, patients are required to have an annual eye exam with a TLC affiliated doctor. The purpose of the program is to respond to a patient's concern that their sight might decrease 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 corrected. The Company believes that this program has been well-received by both patients and doctors.

TLC also seeks to increase its procedure volume and its market penetration through other innovative marketing programs. TLC believes that as market acceptance for laser vision correction continues to increase, competition among providers will grow and candidates for laser vision correction will increasingly select a provider based on factors other than solely the advice of a doctor. TLC believes that the selection decision for laser vision correction will more often be determined by brand recognition in the future. TLC believes it is developing a strong reputation and brand recognition. The Company has been dedicating greater resources towards enhancing its marketing programs directed both at its network doctors and the public, to increase TLC's brand recognition.

TLC believes it will enhance its brand recognition through the endorsement of TLC by such well-known professional athletes as Tiger Woods and Se Ri Pak.

TLC has also developed marketing programs directed primarily at large employers and third party providers to provide laser vision correction to their employees and participants. Participating employers may partially subsidize the cost of an employee's laser vision correction at a TLC eye care center and the procedure may be provided at a discounted price. TLC has more than 1,600 participating employers which include such organizations as Office Depot, Inc., Ernst & Young LLP and Duracell Batteries (Canada). In addition, more than 84 million individuals qualify for the program through arrangements between TLC and third party providers. See "Item 1 – Business – Risk Factors – Inability to Execute Strategy; Management of Growth."

Controlling Costs

TLC has and continues to review its cost structure with a view to significantly reducing complexity and overall costs. On a day to day operations level, this review seeks to achieve a more comprehensive approach to corporate office cost reduction, refinements in the center operating model to increase efficiency without compromising patient care and better leveraging of TLC's economies of scale. On a strategic level, this review resulted in the Company's decision in fiscal 2001 to terminate the operations of its e-commerce subsidiary eyeVantage.com, Inc., close three eye care centers, terminate plans to construct another center and sell its ownership interest in another center. See Note 18 to "Item 8 – "Financial Statements and Supplementary Data" and "Item 2 – Properties".

Additional Growth Opportunities

TLC Affiliate Centers Program

As penetration of the primary markets large enough the support the cost of acquiring or developing a full size Company owned center nears completion, the Company believes that the fastest growing segment of laser vision provider will be the local eye care professional owned center. In order to target this growing segment, TLC recently launched a pilot test of its affiliate centers program. The affiliate centers program is designed to provide TLC's high quality of patient care and service in association with local independent eye care professionals servicing the premium market in secondary markets which are not large enough to justify the development or acquisition of a full sized TLC center. The program enables local providers to leverage TLC's brand reputation in their practices and TLC to participate in markets it might not otherwise target. Pursuant to the TLC Affiliate Center Program, TLC may provide equipment and clinical, management and marketing support to local eye care professionals in exchange for a management fee. Equipment may include an excimer laser and/or a microkeratome. Clinical support may include access to TLC's support services, training of staff and technicians and complications support from TLC's Clinical Affairs department. Management support may include the services of a laser vision correction manager, a license to use TLC's proprietary patient management software and access to TLC's negotiated purchasing discounts from suppliers. Marketing support may include a license to use TLC's trademark design and identify the center as a TLC Affiliate Center, co-marketing, use of TLC's marketing materials and brochures and participation in the Lifetime Commitment Program.

Strategic Acquisions

The final component of TLC's strategy is the expansion of its business through internal development and acquisition of eye care businesses. The major focus of the Company's expansion strategy is the United States, where the Company continues to position itself to take advantage of the growing market for laser vision correction.

TLC plans to expand its business by acquiring other eye care centers and businesses that operate eye care centers and increasing their procedure volumes and efficiency. The Company implements the same business model and marketing programs in improving existing or acquired centers. TLC seeks to increase the volume of procedures performed at each eye care center by training the network doctors to advise patients about laser vision correction and by developing local marketing plans for each center. The Company's management and administrative software and systems are intended to increase the efficiency of TLC's eye care centers, permitting a higher volume of procedures to be performed without significant additional fixed costs. Wherever possible, TLC will seek to establish its position as the leader in laser vision correction in an area or region and then seek to expand in areas contiguous to its existing centers.

TLC's senior executive team regularly examines acquisition and development opportunities in the refractive market. The Company continually identifies opportunities and discusses potential strategic alliances with leading practitioners. In acquiring an existing eye

care center business or opening new centers, TLC generally requires a number of criteria to be met, including a sufficient population base with desirable demographics, the support of a core group of local doctors, traditionally more than 50, and the availability of one or two highly skilled laser vision correction surgeons that are supported by the local network doctors and subscribe to the co-management model. In addition, the center must be expected to provide TLC with a satisfactory return on investment. It is intended that the cost to develop or acquire new centers or businesses that operate centers will be funded through funds available for general corporate purposes. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 1 – Business – Risk Factors -- Risk of Inability to Execute Strategy; Management of Growth".

Description of Eye Care Centers

The Company currently owns and manages 53 eye care centers in the United States and 6 eye care centers in Canada. Each eye care center has a minimum of one excimer laser with many of the centers having two or more lasers. In the United States, the majority of the Company's excimer lasers are manufactured by either VISX Incorporated ("VISX") or Alcon, with a number manufactured by LaserSight. In Canada, the majority of the Company's excimer lasers are manufactured by Chiron Vision Corporation, a subsidiary of Bausch & Lomb Inc.("B&L").

A typical TLC eye care center has between three and five thousand square feet of space and is located in an office building. Although the legal and payment structures can vary from state to state depending upon local law and market conditions, TLC generally receives revenues in the form of management and facility fees paid by doctors who use the center to perform laser vision correction procedures and administrative fees for billing and collection services from doctors who co-manage patients treated at the centers. Every TLC center has 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. Each center also has a business manager, a receptionist, ophthalmic technicians and patient consultants. The number of staff depends on the activity level of the center. Most TLC centers also have a professional relations coordinator who works with the clinical director to support the doctor network and market TLC's services. One senior staff person, who is designated as the executive director of the center, prepares the annual business plan and supervises the day-to-day operations of the center. See "Item 2 – Properties" for a list of TLC eye care centers.

TLC has developed proprietary management and administrative software and systems that are designed to permit eye care centers to provide high levels of patient care. The software permits any TLC center to provide a potential candidate with current information on affiliated doctors throughout North America, to direct a candidate to the closest eye care 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 of the Company's eye care centers. It is also expected that the software will be installed in most affiliated centers. TLC has also introduced a new on-line consumer consultation site on TLC's website (www.tlcvison.com). This consumer consultation site allows consumers to book their consultation with TLC online. TLC also maintains a call center (1-800-CALL TLC) which is staffed seven days a week.

Pricing

Early in fiscal 2001, the Company made the strategic decision not to participate in an escalating price war instigated by a number of providers who employed dramatically reduced pricing in an effort to gain market share, marketing laser vision correction as a commodity rather than recognizing it as a surgical procedure. The Company's analysis indicated that the market for laser vision correction could support a premium model in the United States. At TLC eye care centers in the United States, patients are typically charged approximately $1,550 to $2,200 per eye for LASIK. At TLC eye care centers in Canada, patients are typically charged approximately C$1,000 to C$3,000 per eye for LASIK. Patients are also charged an average of $400 for pre- and post-operative care by their primary care eye doctor, 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 brand recognition, and that its competitiveness is enhanced by a strong network of 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. Increasingly, these procedures are covered in part by health management organizations or third party payors under managed care contracts or by other insurers. The Company has positioned itself well to take advantage of this increasing market through its TLC Corporate Advantage program which is now available to more than 84 million individuals and accounts for more than 25% of the Company's paid procedure volume.

Procedure Fees

In the United States, TLC is typically required to pay a per procedure royalty fee to the manufacturer of the excimer laser which is used for the procedure. The majority of the excimer lasers used by TLC in the United States are manufactured by VISX and Alcon. The royalty fee for laser vision correction on VISX's excimer laser is over $100 per eye. Alcon royalty fees are higher but include scheduled service. There can be no assurance that payments made by the Company to a manufacturer of an excimer laser in the United States will preclude a patent dispute with another manufacturer of an excimer laser or a patentholder with respect to technology or activities purported to be covered by the relevant patents or the Company's equipment or methods will not infringe patents held by other parties. See "Item 1 – Business - Risk Factors - Intellectual Property".

Description of Secondary Care Centers

The Company has an investment in three secondary care entities in the United States. See "Item 2 – Properties" for a list of TLC secondary care centers. 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.

Ownership of Eye Care Centers

TLC's eye care centers are typically owned and operated by subsidiaries of the Company. Under the TLC Affiliate Center program, TLC will have no ownership interest in affiliated centers. Typically, the affiliated center will be owned and operated by one or more local eye care professionals. TLC also has no ownership interest in the doctors' practices or professional corporations that TLC manages on behalf of doctors or that have access to TLC centers to perform laser vision correction services.

Sales and Marketing

While TLC 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 aggressively markets to both doctors and the public. A large part of the Company's marketing resources is devoted to joint marketing programs with affiliated doctors, the goal of which is to build their practices. The Company provides doctors with brochures, videos, posters and other materials which help them educate their patients about laser vision correction. Those doctors who wish to market directly to their patients or the public receive support from the Company in the development of marketing programs. Each eye care center has a relationship with a corporate marketing staff person who assists the center in developing marketing/public relations plans unique to the needs of that center.

The Company believes that the most effective way to market to doctors is to be perceived as the leading provider of quality eye care. To this end, the Company strives to be the clinical leader, educates doctors on laser vision and refractive correction and remains current with new procedures 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.

TLC believes that as market acceptance for laser vision correction continues to increase, competition among service providers will continue to grow and candidates for laser vision correction will increasingly select a provider based on factors other than solely the advice of a doctor. TLC believes that the selection decision for laser vision correction will more often be determined by brand recognition in the future, and TLC believes it has and continues to develop a strong reputation and brand recognition. The Company has historically provided a limited amount of marketing directly to the public through radio and print advertisements, videos, brochures and seminars. In fiscal 2001, TLC dedicated additional resources towards enhancing its marketing programs directed at network doctors and the public to increase TLC's brand recognition. TLC has also developed innovative marketing programs such as the Corporate

Advantage program to expand TLC's position as the leader in the North American market for laser vision correction services.

Surgeon Contracts

In each market where TLC operates, TLC has formed 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 TLC 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 TLC collect the fees on their behalf.

Most surgeons performing laser vision correction procedures at TLC eye care centers do so under one of three types of standard agreements (which have been 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 surgeons performing laser vision correction at the Company's eye care 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 "Risk Factors – Dependence on Affiliated Doctors".

Surgeons must meet the credentialing requirements of the state or province in which they practice, the FDA and the manufacturer of the laser on which they perform procedures and must complete training arranged by the Company, unless the Company is otherwise satisfied that the surgeon has been properly trained. 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 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.

Ancillary Businesses and Support Programs

TLC has made investments in other businesses with the primary objective of supporting its laser vision correction business and the secondary objective of capitalizing on its management and marketing skills.

Other Businesses

eyeVantage.com, Inc., a subsidiary of TLC, provided e-business services for eye care professionals. As part of its strategy to focus on its core business of providing laser vision correction surgery services and to reduce costs, the Company announced in October 2000 that it had chosen to terminate the activities of eyeVantage.com, Inc. See Note 18 to "Item 8 – "Financial Statements and Supplementary Data".

Pure Laser Hair Removal & Treatment Clinics Inc. ("Pure"), a subsidiary of TLC, offers a variety of aesthetic services and treatments including hair removal and skin care. Pure has one center in Ontario, three centers in Illinois and three centers in Michigan.

Aspen Healthcare Inc. ("Aspen"), a subsidiary of TLC, is a health care consulting, development and management firm specializing in ambulatory surgery center joint-venture development, management and ownership. Aspen offers experienced management services to both surgery centers and hospitals. Aspen also consults, plans, designs, develops, implements and operates ambulatory surgery centers nationwide.

Vision Source is a wholly owned subsidiary that provides marketing, management and buying power to independently owned and operated optometric practices in the United States. This business supports the development of independent practices and complements the Company's co-management model.

The Company continues to work to maximize its return on investments in non-core businesses and focuses on ensuring that non-core businesses are self-sustaining.

Support Programs

National Medical Board

The Company's National Medical Board is comprised of refractive surgeons, selected based upon clinical experience and previous involvement with TLC, that represent the geographic centers in which TLC currently owns or manages an eye care center. The National Medical Board, established in March 1998, together with the Company's co-national medical directors, is responsible for developing protocols and procedures that are recommended for doctors using TLC's eye care centers. The National Medical Board has scheduled meetings

quarterly throughout the year and meets as necessary to consider clinical issues as they arise. The National Medical Board also serves as a quality assurance peer group to seek to ensure that TLC's eye care centers provide high quality vision care.

Emerging Technologies

The Company considers itself a clinical leader in vision correction procedures. The Company's medical directors continually evaluate new vision correction technologies and procedures to seek to ensure that TLC eye care centers provide the highest level of care. TLC's eye care centers in Ontario are state of the art facilities that are used to examine and evaluate new technologies for TLC eye care centers. In February 2001, TLC announced that it had entered into a strategic refractive technology alliance with Alcon, manufacturer of the Summit/Autonomous excimer laser and a global leader in the research, development, manufacture and marketing of ophthalmic products. The Company is also developing custom LASIK procedures capable of addressing the inherent uniqueness of each human eye. TLC currently operates the only center in North America that offers custom LASIK vision correction procedures.

National Advisory Council

The Company's National Advisory Council is comprised of optometrists that represent the geographic centers in which TLC currently manages or intends to manage an eye care center. By providing regional representation, the National Advisory Council serves as a channel of communication to local doctors. The National Advisory Council advises the Company from time to time on a broad range of clinical and strategic issues, and its feedback is incorporated into the Company's strategic development.

Training

The Company conducts a comprehensive training program under the supervision of Dr. Jeffery Machat or Dr. Stephen Slade. Dr. Machat and Dr. Slade are the Co-National Medical Directors of TLC, and both are prominent ophthalmologists and experts in the field of laser vision correction. Both have been working with excimer lasers since 1990 and have lectured and trained surgeons in North America, South America, Europe, South Africa, Australia and Asia. The Company believes that Dr. Slade was among the first surgeons to perform LASIK in the United States and Dr. Machat was the first surgeon to perform LASIK in Canada. In addition, Dr. Machat and Dr. Slade are qualified by Chiron (Bausch & Lomb) to certify surgeons to perform LASIK procedures using Chiron excimer lasers.

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, primarily in conjunction with several of the major optometry schools in the United States. In addition, TLC has an education and training relationship with the University of Waterloo, the only English language optometry school in Canada.

Website

TLC has linked its eye care centers, network doctors and potential patients through its website *www.tlcvision.com* which provides a directory of TLC eye care providers and contains questions and answers about laser vision correction.

Equipment and Capital Financing

In the United States, most of TLC's eye care centers are equipped with either or both VISX or Alcon excimer lasers. Due to its strategic alliance with Alcon, the Company expects that the number of Alcon lasers will increase. In Canada, excimer lasers manufactured by B&L, LaserSight and Alcon are now being used. 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 United States 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 and expansion plans.

A new excimer laser costs approximately $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. Excimer lasers require periodic servicing, generally after 300 procedures.

As available technology improves and additional procedures are approved by the FDA, 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 will grow. Laser vision correction providers are divided into three major segments: corporate owned centers; independent surgeon owned centers; and institution owned centers. According to an industry source, as of June 30, 2001, independent surgeon owned centers accounted for the largest percentage of total procedure value in the industry with a 54.6% market share. Corporate owned centers accounted for 31.5% of total procedures performed. The remaining 13.9% of laser vision correction procedures were performed at institution owned centers, such as hospitals or universities.

Although some competitors continue to charge less for laser vision correction than TLC and its affiliated doctors, the Company believes that the important factors affecting competition in the laser vision correction market are quality of service, reputation, brand recognition along with price and that competitiveness is enhanced by a strong network of affiliated doctors. Suppliers of conventional vision correction (eyeglasses and contact lenses), such as optometric chains, may 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 the past year, the laser vision correction industry was thrown into turmoil by a number of providers who employed dramatically reduced pricing in an effort to gain market share. TLC refused to participate in the price war and maintained its premium pricing model with 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 and in June, 2001 ICON Laser Eye Centers, Inc. was placed in receivership. 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 amongst prospective patients. A series of negative news stories focusing on patients with unfavourable outcomes from procedures performed at competing centers further adversely affected procedure volumes. In addition, being an elective procedure, laser eye surgery volumes may have been further depressed by economic conditions in early 2001.

TLC competes in fragmented geographic markets. The Company's principal corporate competitors include Laser Vision Centers, Inc., LCA-Vision Inc., Laser Vision Institute, Inc. and

Aris Vision Institute. On August 27, 2001, the Company announced that it had entered into an Agreement and Plan of Merger with Laser Vision Centers, Inc. See "Item 1 – Business – Overview". In each geographical market, TLC's primary competitors will often be independent surgeon and institution owned centers.

Government Regulation

Excimer Laser Regulation

United States

Medical devices, such as the excimer lasers used in the Company's United States centers, are subject to stringent regulation by the FDA and cannot be marketed for commercial sale 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. Figures 1 and 2 at pages 5 and 6 set out a list of lasers approved for LASIK, PRK and other procedures as at March 29, 2001. 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 eye care centers, may perform the LASIK procedure, using lasers with a PMA for PRK only (off-label use) in an exercise of professional judgement 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 TLC eye care centers, widely perform bilateral treatment in an exercise of professional judgement 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-indicated uses and conducts periodic inspections of manufacturers to determine compliance with good manufacturing practice 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 is 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 not been complied with. 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, and 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.

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 TLC centers 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 harbour 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 a physician from ordering or prescribing certain designated health services or items if the service or item is reimbursable by Medicare or Medicaid and is provided by an entity with which the physician has a financial relationship (including investment interests and compensation arrangements). This law, known as the "Stark Law", does not restrict a physician from ordering an item or service not reimbursable by Medicare or Medicaid or an item or service that does not fall within the categories designated in the law.

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 eye care centers but the Company is subject to similar state laws.

Doctors at 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, 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 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 operation.

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 from 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. TLC'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 such arrangements do not violate any such 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 with 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. TLC expects that ophthalmologists and optometrists affiliated with TLC 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 TLC 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, TLC does not allow optometrists to perform the procedure at TLC 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 TLC centers. While there can be no assurance that the Company will be able to obtain facility licenses in all states which may require facility licensure, the Company has no reason to believe that in such states, it will not be able to obtain such a license without unreasonable expense or delay.

Some states require the permission of the State 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. While 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 has no reason to believe that in those states that require a CON, it will not be able to do so.

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

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, TLC expects that doctors affiliated with TLC centers will comply with such laws in all material respects, although it cannot ensure 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 name "TLC The Laser Center" and slogan "See the Best" are registered United States service marks of the Company and registered trade-marks in Canada. The Company also has applied for registration of "TLC Laser Eye Centers" with the TLC eye design in the United States and "TLC Laser Eye Centers" with the TLC eye design is a registered trade-mark in Canada. In addition, the Company 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, patent and other intellectual property may offer the Company a competitive advantage in the marketplace and could be important to the success of the Company. There can be no assurance that one or all of the registrations of the service marks will not 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. 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 acceptable 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. The unavailability of such products may cause the Company to cease operations in the United States or Canada or delay the Company's continued expansion into the United States. If the Company is prohibited from performing laser vision correction at any of its laser centers, the Company's business, financial condition and results of operations will be materially adversely affected.

Employees

As part of its initiative to reduce costs, the Company has significantly reduced its staffing levels over the past year. As of July 31, 2001, the Company had more than 760 employees, as compared to more than 1,034 employees a year ago. 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

Losses from Operations; Uncertainty of Future Profitability

The Company had net losses of $10.4 million, $4.6 million, $5.9 million and $37.8 million for fiscal 1998, 1999, 2000 and 2001, respectively. As of May 31, 2001, the Company had an accumulated deficit of $80.2 million. The Company's ability to achieve or maintain profitability will depend in part on its ability to increase demand for its services and control costs, its ability to execute its strategy and effectively integrate acquired businesses and assets, economic conditions in the Company's markets, competitive factors and regulatory developments. Accordingly, the extent of future profits, if any, and the time required to achieve sustained profitability is uncertain. Moreover, the level of such profitability cannot be predicted

and may vary significantly from quarter to quarter. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations".

Uncertainty of Market Acceptance

The Company believes that its profitability and growth will depend upon broad acceptance of laser vision correction in the United States and, to a lesser extent, Canada. 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 fully covered or covered at all by government insurers or other third party payors and, therefore, must be paid for by the individual receiving treatment), economic conditions, 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 unfavourable publicity involving patient outcomes from laser vision correction could also adversely affect its acceptance whether or not the publicized procedures are performed at TLC eye care centers. Market acceptance could also be affected by regulatory developments and by the ability of the Company and other participants in the laser vision correction market to train a broad population of ophthalmologists in performing the procedure. Acceptance of laser vision correction by ophthalmologists could also be affected by the cost of excimer laser systems. The failure of laser vision correction to achieve broad market acceptance would have a material adverse effect on the Company's business, financial condition and results of operations. See "Item 1 – Business – The Refractive Market".

Dependence on Affiliated Doctors

Many 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 centers and affiliating with other health care providers. Affiliated doctors provide a significant source of patients for the Company. 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 or arrange 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 agreements with eye care 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 eye care doctors will have a material adverse effect on the Company's business, financial condition and results of operations. See "Item 1 – Business – Surgeon Contracts".

Competition

Laser vision correction is subject to intense competition. The Company competes with other entities, including hospitals, individual ophthalmologists, other corporate laser centers and certain manufacturers of excimer laser equipment, in offering laser vision correction. The Company's eye care centers compete on the basis of quality of service, reputation, brand recognition and price. There can be no assurance that competitors with substantially greater financial, technical, managerial, marketing and other resources and experience than the Company will not compete more effectively than the Company. If more providers offer laser vision correction in a given geographic market, the price charged for such procedures may decrease. In the past year, competitors have offered laser vision correction at prices considerably lower than TLC's prices. At TLC centers, Canadian residents are typically charged between C$1,000 to C$3,000 per eye for LASIK procedures and United States residents are typically charged from $1,550 to $2,200 per eye for LASIK procedures, in addition to a charge of approximately $400 by the patient's primary care eye doctor for pre- and post-operative care, while competitors in some markets have advertised LASIK procedures for as low as C$500 per eye. Notwithstanding its recent refusal to participate in an industry price war, market conditions may compel the Company to lower its prices to remain competitive in some or all of its markets. There can be no assurance that any reduction in prices charged will be compensated for by an increase in procedure volume or decreases in the Company's costs. A decrease in either the fees for procedures performed at TLC's eye care centers or in the number of procedures performed at TLC's centers could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, laser vision correction competes with other surgical and non-surgical treatments for refractive disorders, including eyeglasses, contact lenses, other types of refractive surgery and other technologies currently under development such as corneal rings, intraocular lenses and surgery with different types of lasers. Suppliers of conventional vision correction alternatives (eyeglasses and contact lenses), such as optometry chains, with substantially greater financial, technical, managerial, marketing and other resources and experience than the Company may compete with the Company by promoting alternatives to laser vision correction or by purchasing laser systems and offering laser vision correction to their customers. 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.

Competition has increased in part due to the greater availability and lower cost of excimer lasers. Further competition could develop if a significant decrease in the price of excimer laser systems were to occur, because the high price of excimer laser systems currently is a barrier to entry for many potential competitors, particularly individual ophthalmologists and ophthalmologists participating in group practices. A price decrease could occur for a number of reasons, including increased competition among laser manufacturers. Competition in the market for laser vision correction could increase if state laws were amended to permit optometrists (in addition to ophthalmologists) to perform laser vision correction.

In addition, although surgeons performing laser vision correction at the Company's eye care centers and certain other employees have generally 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.

Quarterly Fluctuations in Operating Results

Results of operations have varied and may continue to fluctuate significantly from quarter to quarter and will depend on numerous factors, including: (i) market acceptance of the Company's services; (ii) seasonal factors (historically, fewer procedures are scheduled during the summer); (iii) the purchase or upgrade of lasers and other equipment; (iv) economic conditions in the geographic areas in which the Company operates; (v) the timing of new enhancements by the Company, its suppliers and its competitors; (vi) the opening, closing or expansion of centers; (vii) regulatory matters; (viii) litigation; (ix) acquisitions; (x) competition; (xi) fluctuations in currency exchange rates (a portion of the Company's operations are conducted in Canadian dollars) and (xii) other extraordinary events. There can be no assurance that the growth in revenues achieved by the Company in years prior to fiscal 2001 will resume and continue or that revenues or net income in any particular quarter will not be lower, or losses greater, than those of the preceding quarters, including comparable quarters of prior fiscal years. The Company's expense levels are based, in part, on its expectations as to future revenues. If revenue levels are below expectations, operating results are likely to be adversely affected. In light of the foregoing, quarter-to-quarter comparisons of the Company's operating results are not necessarily meaningful and should not be relied upon as indications of likely future performance or annual operating results. Reductions in revenues or net income between quarters or the failure of the Company to achieve expected quarterly earnings per share could have a material adverse effect on the market price of the Common Shares.

Potential Side Effects and Long-Term Results of Laser Vision Correction

Concerns with respect to the safety and efficacy of laser vision correction include predictability and stability of results and potential complications or side effects, including but not limited to the following: post-operative discomfort; corneal haze during healing (an increase in light-scattering properties of the cornea); glare/halos (disturbed night vision); decrease in contrast sensitivity (reduced visual quality of sharpness); temporary increases in intraocular pressure in reaction to post-procedure medication; modest fluctuations in astigmatism and modest decreases in best corrected vision (i.e., with eyeglasses); loss of fixation during the procedure; unintended over- or under-correction; instability, reversion or regression of effect; corneal scars (blemishing marks left on the cornea); corneal ulcers (inflammatory lesions resulting in loss of corneal tissue); and corneal healing disorders (compromised or weakened immune system or connective tissue disease which causes poor healing). Laser vision correction may involve the removal of "Bowman's layer", an intermediate layer between the epithelium (outer corneal layer) and the stroma (middle corneal layer). Although several studies conducted to date have demonstrated no significant adverse reactions to excimer laser removal of Bowman's layer, it is unclear what effect this may have on the patient. Although recently released results of a study showed that the majority of patients experienced no serious side effects six years after laser vision correction using the PRK procedure, there can be no assurance that complications will not be identified in further long-term follow-up studies. Any such

complications or side effects may call into question the safety and effectiveness of laser vision correction, which in turn may negatively affect the approval by the FDA of the excimer laser for sale for laser vision correction and the market acceptance of such procedures and lead to product liability, malpractice or other claims against the Company. Any such occurrence could have a material adverse effect on the Company's business, financial condition and results of operations.

Potential Liability and Insurance

The provision of medical services entails an inherent risk of potential malpractice and other similar claims. Although patients at the Company's centers execute informed consent statements prior to any procedure performed by doctors at the Company's centers, there can be no assurance that such consents will provide adequate liability protection. In addition, although the Company does not engage in the practice of medicine or have responsibility for compliance with certain regulatory and other requirements directly applicable to doctors and doctor groups, there can be no assurance that claims, suits or complaints relating to services provided at the Company's centers will not be asserted against the Company in the future. The Company currently maintains malpractice insurance coverage that it believes is adequate both as to risks and amounts, in the amount of C$50,000,000 for each occurrence and in the aggregate annually for all eye care centers in Canada and the United States. Such insurance extends to professional liability claims that may be asserted against employees of the Company that work on site at the centers. In addition, the doctors who provide medical services at the Company's centers are required to maintain comprehensive professional liability insurance, although there can be no assurance that any such insurance will be adequate to satisfy claims or that insurance maintained by the doctors will protect the Company.

The availability and cost of professional liability insurance has been affected by various factors, many of which are beyond the control of the Company. An increase in the future cost of such insurance to the Company and the doctors who provide medical services at the centers may have a material adverse effect on the Company's business, financial condition and results of operations. Successful malpractice or other claims asserted against any of the doctors who provide medical services or the Company that exceed applicable policy limits or are not covered by policy terms could have a material adverse effect on the Company's business, financial condition and results of operations. Although the doctors providing medical services at the centers are required to carry malpractice insurance and while most have agreed to indemnify the Company against certain malpractice and other claims, there can be no assurance that such indemnification is enforceable or, if enforced, that it will be sufficient.

The excimer laser system utilizes certain poisonous gases which if not properly contained could result in bodily injury. Any such occurrence could result in a material adverse effect on the Company's business, financial condition and results of operations. In addition, the use of excimer laser systems may give rise to claims by patients, doctors, technicians or others against the Company resulting from laser-related injuries, which may not become evident for a number of years. While the Company believes that any claims alleging defects in its excimer laser systems would be covered by the manufacturers' product liability insurance, there can be no assurance that the Company's excimer laser manufacturers will continue to carry product liability insurance or that any such insurance will be adequate to protect the Company. The

Company may not have adequate insurance for any liabilities arising from injuries caused by poisonous gases or laser equipment.

There can be no assurance that adequate insurance will continue to be available, either at existing or increased levels of coverage on commercially reasonable terms, if at all, for the Company's existing and future operations and centers, or that the Company's existing insurance will be adequate to cover any future claims that may be made. The unavailability of adequate insurance at acceptable rates could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, even if a claim against the Company is covered by insurance, the cost of defending the action and/or the assessment of damages in excess of insurance coverage could have a material adverse effect on the Company's business, financial condition and results of operations.

Management of Growth

The Company's success will depend on its ability to expand and manage its operations and facilities. The Company's focus of expansion remains the United States. The Company's growth and expansion has resulted in and may continue to result in new and increased responsibilities for management and additional demands on management, operating and financial systems and resources. In particular, the Company will need to successfully hire, train and retain management for each of its eye care centers. There can be no assurance that the Company will be able to hire, train or retain qualified managers. The Company's ability to continue to expand in the United States is dependent upon factors such as its ability to: (i) implement new, expanded or upgraded operations and financial systems, procedures and controls; (ii) hire and train new staff and managerial personnel; (iii) expand the Company's infrastructure; (iv) adapt or amend the Company's structure to comply with present or future legal requirements affecting the Company's arrangements with doctors, including state prohibitions on fee-splitting, corporate practice of medicine and referrals to facilities in which doctors have a financial interest; and (v) obtain regulatory approvals and Certificates of Need, where necessary, and comply with licensing requirements applicable to doctors and facilities operated, and services offered, by doctors. Any failure or inability to successfully implement these and other factors may have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will be able to successfully integrate and manage the eye care centers it opens or acquires or achieve the economies of scale and/or the patient base required to achieve profitability in the eye care centers. If the Company's management is unable to successfully implement its growth strategy or manage growth effectively, the Company's business, financial condition and results of operations could be materially adversely affected.

Inability to Execute Strategy

In response to recent industry turmoil and a deep discounting price war, the Company retained the services of a national consulting firm and undertook an extensive review of its internal structures, market position, resources and future strategies. As a result of that review, the Company confirmed its decision to maintain its premium brand model and not participate in the industry price war. The Company decided to continue to focus on maximizing revenues through the Company's co-management model and innovative marketing programs, controlling costs without compromising superior quality of care or clinical outcomes and pursuing additional

growth opportunities for its core laser vision correction business through the TLC Affiliate Centers Program, strategic acquisitions and opening new centers There can be no assurance that the Company will be successful in executing its new strategy or, if successful in executing the strategy, that it will be effective. If the Company is unable to implement its strategy, or if its strategy proves to be ineffective, the Company's business, financial condition and results of operations could be materially adversely affected.

Acquisitions and Affiliate Centers

The Company's growth strategy is dependent on increasing the number of procedures at existing eye care centers, increasing the number of TLC eye care centers through internal development or acquisitions and entering into TLC Affiliate Center arrangements with local eye care professionals in markets not large enough to justify a corporate center.

The addition of new centers can be expected to present challenges to management, including the integration of new operations, technologies and personnel, and special risks, including unanticipated liabilities and contingencies, diversion of management attention and possible adverse effects on operating results resulting from increased goodwill amortization, increased interest costs, the issuance of additional securities and increased costs resulting from difficulties related to the integration of the acquired businesses. The future ability of the Company to achieve growth through acquisitions will depend on a number of factors, including the availability of attractive acquisition opportunities, the availability of funds needed to complete acquisitions, the availability of working capital needed to fund the operations of acquired businesses and the effect of existing and emerging competition on operations. There can be no assurance that the Company will be able to successfully identify suitable acquisition candidates, complete acquisitions on acceptable terms, if at all, or successfully integrate acquired businesses into its operations. The Company's past and possible future acquisitions may not achieve adequate levels of revenue, profitability or productivity or may not otherwise perform as expected. The future ability to achieve growth through the Affiliate Center program will depend on a number of factors, including the success of the pilot program, the availability and willingness of local eye care practitioners to participate in the program and the ability of the local affiliate to integrate his or her practice with TLC's methods of operations and to maintain the goodwill generated by the TLC brand. There can be no assurance that the Company will be able to enter into a sufficient number of affiliate center arrangements to generate significant growth in revenues or that affiliate center arrangements will be profitable.

If the Company seeks to issue Common Shares to finance acquisitions, a decline in the price of the Common Shares may result in the Company being required to issue a greater number of Common Shares which could have a material adverse effect on the Company's ability to complete acquisitions and could result in increased dilution to existing shareholders.

There can be no assurance that the Company will have adequate resources to finance acquisitions. If the Company does not have adequate resources, its growth could be limited, and its existing operations impaired, unless it is able to obtain additional capital through subsequent equity or debt financings. There can be no assurance that the Company will be able to obtain such financing or that, if available, such financing will be on terms acceptable to the Company.

As a result, there can be no assurance that the Company will be able to implement its expansion strategy successfully. Failure by the Company to successfully implement its acquisition strategy and integrate and operate the acquired businesses efficiently would have a material adverse effect on the Company's business, financial condition and results of operations.

Future Capital Requirements; Uncertainty of Additional Funding

It is not possible to predict with certainty the timing or the amount of future capital requirements. However, the Company may require significant additional funding to expand in the future. Such additional funding may be raised through additional public or private equity or debt financings or other sources and may, if obtained by way of subsequent equity financing, result in dilution to the holders of the Common Shares. The Company believes that its existing cash balances and funds expected to be generated from operations and available credit facilities should be sufficient to fund its anticipated level of operations and its current expansion and acquisition plans for the foreseeable future. There can be no assurance that the Company's operations, expansion plans or capital requirements will not change in a manner that would consume available resources more rapidly than anticipated, or that substantial additional funding will not be required before the Company can achieve and maintain profitable operations. The Company's capital needs depend on many factors, including the rate and cost of acquisitions of businesses, equipment and other assets, the rate of opening new centers or expanding existing centers, market acceptance of laser vision correction and actions by competitors. Further, additional funding may not be available on terms satisfactory to the Company, if at all. If adequate funds are not available, the Company may be required to cut back or abandon its expansion plans and curtail operations significantly, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Government Regulation and Supervision

Regulation of Health Care Industry
United States

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, and limiting the manner in which prospective patients may be solicited. Further, contractual arrangements with hospitals, surgery centers, ophthalmologists and optometrists, among others, are extensively regulated by federal and state laws. Many of these laws and regulations 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 by regulators, competitors or others. In addition, there can be no assurance that the regulatory environment in which the Company operates will not change significantly in the future. In response to new or revised laws, regulations or interpretations, 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 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. Among the laws and regulations that affect the Company's operations are anti-kickback laws, fee-splitting laws, corporate practice of medicine restrictions, self-referral laws and professional licensing rules.

Anti-Kickback Statutes. In the United States, the federal anti-kickback statute prohibits the knowing and wilful solicitation, receipt, offer or payment of any remuneration, whether direct or indirect, in return for or to induce the referral of patients or the ordering or purchasing of items or services payable in whole or in part under Medicare, Medicaid or other federal health care programs. Certain federal courts have interpreted the anti-kickback statute broadly and, in some cases, have interpreted the law to prohibit payments intended to induce the referral of Medicare or Medicaid business, irrespective of any other legitimate motives. Sanctions for violations of the anti-kickback statute include criminal penalties, such as imprisonment or criminal fines of up to $25,000 per violation, civil penalties of up to $50,000 per violation, and exclusion from the Medicare or Medicaid programs and other federal programs. The federal Office of the Inspector General, the agency responsible for the interpretation and enforcement of the anti-kickback statute, has stated that if ophthalmologists and optometrists engage in agreements to refer, they may be violating the anti-kickback statute. The Inspector General also has taken the position that the anti-kickback statute is implicated, even if non-Medicare or Medicaid covered services are involved, if the arrangement has an impact on the referral pattern for services covered by Medicare or Medicaid. Moreover, some states have enacted statutes similar to the federal anti-kickback statute which are applicable to referrals of patients regardless of payor source. Although the Company has endeavoured to structure its contractual relationships in compliance with these laws, federal and/or state authorities could determine that prohibitions contained in anti-kickback or similar statutes apply to the Company's co-management strategy and to the Company's contractual relationship with ophthalmologists in connection with the Company's secondary care center holdings, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Fee-Splitting. Many states in the United States prohibit professionals, including ophthalmologists and optometrists, from paying a portion of a professional fee to another individual (including another professional) unless the individual is an employee or partner in the same professional practice. Violation of a state's fee-splitting prohibition may result in civil or criminal fines, as well as sanctions imposed against the professional through licensing proceedings. Many states do not have any clear precedent or regulatory guidance on what relationships constitute fee-splitting, particularly in the context of providing management services for doctors. Although the Company has endeavoured to structure its contractual relationships in compliance with these laws in all material respects, state authorities could find that fee-splitting prohibitions are implicated in the Company's co-management programs or in the management services agreements between doctors and the Company in connection with the Company's eye care centers and secondary care centers. Such findings may 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.

Corporate Practice of Medicine and Optometry. The laws of many states in the United States prohibit business corporations, such as the Company, from practicing medicine and employing or

engaging physicians to practice medicine and some states prohibit business corporations from practicing optometry or employing or engaging optometrists to practice optometry. Such laws preclude companies that are not owned entirely by eye care professionals from employing eye care professionals, having control over clinical decision-making or engaging in other activities that are deemed to constitute the practice of optometry or ophthalmology. This prohibition is generally referred to as the prohibition against the corporate practice of medicine or optometry. Violation of a state's corporate practice of medicine or optometry prohibition may result in civil or criminal fines, as well as sanctions imposed against the professional through licensing proceedings. Although the Company has endeavoured to structure its contractual relationships in compliance with these laws in all material respects, if any aspect of the Company's operations were found to violate applicable state corporate practice of medicine or optometry prohibitions, the Company would be required to revise the structure of its legal arrangements which could have a material adverse effect on the Company's business, financial condition and results of operations.

Self-Referral Laws. Under the United States federal self-referral law (the "Stark Law") physicians (which, under the statute, includes optometrists) are prohibited from referring their Medicare or Medicaid patients for the provision of designated health services (including clinical laboratory, diagnostic imaging and prosthetic devices) to any entity with which they or their immediate family members have a financial relationship, unless the referral fits within one of the specific exceptions in the statute or regulations. The penalties for violating the Stark Law include denial of payment for the designated health services performed, civil fines of up to $15,000 for each service provided pursuant to a prohibited referral, a fine of up to $100,000 for participation in a circumvention scheme, and possible exclusion from the Medicare and Medicaid programs. Many of the Company's subsidiaries that operate refractive or secondary care centers are partially owned by doctors affiliated with those centers. While the Company believes that its present arrangements in connection with the performance of PRK and LASIK in its eye care centers will not be affected once the final rule becomes effective, there can be no assurance that the Stark Law will not 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.

Many states in the United States also have laws similar to the Stark Law prohibiting self-referrals. The services covered by such laws vary from state to state. While the Company believes that its present arrangements are consistent with applicable state law in all material respects, there can be no assurance that state officials will not take the position that certain referrals are prohibited under state law. Such findings could 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.

State Licensing Limitations. State medical boards and state boards of optometry generally set the limits of the activities in which the professional may engage. In some instances, issues have been raised as to whether participation in a co-management program violates a physician's responsibility to provide adequate care to the patient, constitutes an abandonment of the patient, or constitutes conspiring to promote the unlicensed practice of medicine by an optometrist. The conclusions of these regulatory bodies often are not consistent. The issue is further complicated by the dual jurisdiction exercised by boards of medicine and boards of optometry. While a board

of medicine generally has no jurisdiction over optometrists, it could hold an ophthalmologist culpable for conspiracy to promote the unlicensed practice of medicine by an optometrist. Yet, in the same state, the board of optometry may hold that the post-operative services rendered by the optometrist are within the scope of the practice of optometry. Participation in the Company's co-management program may place ophthalmologists and optometrists at risk of violating state licensing laws. Such a finding could require the Company to revise the structure of its legal arrangements and may result in affiliated doctors terminating their relationships with the Company, either of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Other Anti-Fraud Provisions. There are also federal and state civil and criminal statutes imposing penalties, including substantial civil and criminal fines and imprisonment, on health care providers and those who provide services to such providers (including management businesses such as the Company) which fraudulently or wrongfully bill government or other third-party payors for health care services. In addition, the federal law prohibiting false Medicare/Medicaid billings allows a private person to bring a civil action in the name of the United States government for violations of its provisions and obtain a portion of the false claims recovery if the action is successful. The Company believes that it and its affiliated doctors are in material compliance with such laws, but there can be no assurance that the Company's activities will not be challenged or scrutinized by governmental authorities or private parties asserting a false claim action in the name of the United States government which could have a material effect on the Company's business, financial condition and results of operations.

Facility Licensure and Certificate of Need. 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 or acquires a center. The Company believes that it has obtained the necessary licensure in states where licensure is required and that it is not required to obtain licenses in other states. However, some of the regulations governing the need for licensure are unclear and there is no applicable precedent or regulatory guidance to cover certain interpretive issues. Therefore, it is possible that a state regulatory authority could determine that the Company is operating a center inappropriately without a license, which could subject the Company to significant fines or other penalties, result in the Company being required to cease operations in that state or otherwise have a material adverse effect on the Company's business, financial condition and results of operations. With respect to future entry into new geographic markets, although there can be no assurance that the Company will be able to obtain any required license, the Company has no reason to believe that, in those states that require such facility licensure, it will be not able to obtain such a license without unreasonable expense or delay.

Some states require the permission of the State 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, or the purchase of certain medical equipment in excess of an amount set by the state. The Company believes that it has obtained the necessary CONs in states where a CON is required and that it is not required to obtain CONs in other states. However, some of the regulations governing the need for CONs are unclear and there is no applicable precedent or regulatory guidance to cover certain interpretative issues. Therefore, it is possible that a state regulatory authority could determine that the

Company is operating a center inappropriately without a CON, which could have a material adverse effect on the Company's business, financial condition and results of operations. While 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 has no reason to believe that in those states that require a CON, it will not be able to do so.

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 addition, 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 ophthalmologists or optometrists directly. Although the Company is not aware of any Canadian health regulations which impose licensing restrictions on the operation of its centers, there can be no assurance that such restrictions will not be adopted. Changes in the interpretation or enforcement of existing regulatory requirements or the adoption of new requirements could have a material adverse effect on the Company's business, financial condition and results of operations. There can be no assurance that the Company will not be required to incur significant costs to comply with laws and regulations in the future or that laws and regulations will not have a material adverse effect on the Company's business, financial condition and results of operations. In addition, many of the Company's operations have not been subject to review by regulators and there can be no assurance that a review of the Company's operations or the operations of its affiliated doctors will not result in a determination that could have a material adverse effect on the Company's business, financial condition and results of operations.

United States Food and Drug Administration

To date, some FDA approvals granted for certain excimer lasers have applied only to the PRK procedure, and not for the LASIK procedure. The FDA, however, is not authorized to regulate the practice of medicine, and ophthalmologists, including those affiliated with TLC eye care centers, may perform the LASIK procedure in an exercise of professional judgement in connection with the practice of medicine.

Also, 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 TLC eye care centers, widely perform bilateral treatment in an exercise of professional judgement in connection with the practice of medicine.

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.

Most of the Company's eye care centers in the United States use VISX and/or Alcon excimer lasers. The failure of VISX, Alcon or 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 lasers, substantially increase the cost of excimer lasers, limit the number of patients that can be treated at the Company's centers and limit the ability of the Company to use the lasers, which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Item 1 – Business – Governmental Regulation."

Intellectual Property/Proprietary Technology

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. In the event that the use of an excimer laser or other procedure performed at any of the Company's 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 acceptable 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. The unavailability of such products may cause the Company to cease operations in the United States or Canada or delay the Company's expansion. If the Company is prohibited from performing laser vision correction at its eye care centers, the Company's business, financial condition and results of operations will be materially adversely affected. See "Item 1 – Business – Intellectual Property/Proprietary Technology".

Technological Change

Modern medical technology is characterized by extensive research and rapid technological change. Newer or enhanced technologies may be developed with better performance or lower cost than the excimer laser equipment currently used by the Company. Medical companies, academic and research institutions and others have developed and could develop new therapies, including new or enhanced medical devices or surgical procedures for the conditions targeted by the Company. For instance, the FDA recently approved for marketing intraocular lenses (*i.e.*, implantable contact lenses) and other vision correction alternatives, such as corneal rings, are being developed. New and potential therapies could be more medically effective and less expensive than the procedures performed at the Company's eye care centers and could potentially render laser vision correction obsolete, uneconomical or otherwise undesirable. In addition, competitors may develop procedures that involve lower per procedure costs. There can be no assurance that the Company will have the capital resources available to it

to upgrade its excimer laser equipment, acquire any such new or enhanced medical devices or adopt such new or enhanced procedures at the time that any advanced or more efficient technology or procedure is developed or introduced. The inability of the Company to do so successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

Dependence on Key Personnel

The success of the Company is dependent in part on the services of certain key medical and management personnel, including Dr. Jeffrey Machat and Mr. Elias Vamvakas. The experience of these individuals will be an important factor contributing to the Company's continued success and growth. The loss of either of these individuals could have a material adverse effect on the Company's business, financial condition and results of operations.

Potential Volatility of Stock Price

The market price of the Common Shares historically has been subject to substantial price volatility. Such volatility can be expected to recur in the future due to industry developments or business-specific factors such as the Company's ability to effectively penetrate the laser vision correction market, implement its strategies, new technological innovations and products, changes in government regulations, adverse regulatory action, public concerns with regard to the safety and effectiveness of various medical procedures, any loss of key management, announcements of extraordinary events such as litigation or acquisitions, variations in the Company's financial results, fluctuations in the stock prices of the Company's competitors, the issuance of new or changed stock market analyst reports and recommendations concerning the Company or its competitors, changes in earnings estimates by securities analysts, the Company's ability to meet analysts' projections, as well as changes in the market for medical services and general economic, political and market conditions or other unforeseen factors. In addition, stock markets have experienced extreme price and volume trading volatility in recent years. This volatility has had a substantial effect on the market prices of securities of many companies for reasons frequently unrelated or disproportionate to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of the Common Shares.

ITEM 2. PROPERTIES

The Company's centers are located in leased premises. The leases are negotiated on market terms and typically have a term of five to ten years. See Note 14 to "Item 8 – Financial Statements and Supplementary Data". The following chart contains the location and acquisition or opening date of each TLC eye care center:

Eye care centers

United States

Location	Opened
California	
Brea	September 1996
Newport Beach	July 1999
Ontario	July 1999
Palm Desert	March 2000
Sacramento	December 1999
Silicon Valley	June 2000
Torrance	May 2000
Colorado	
Denver	August 1996
Connecticut	
Fairfield	September 1999
Florida	
Boca Raton	January 1996
Coral Gables	December 2000
Fort Lauderdale	January 1997
Tampa	January 1997
Georgia	
Atlanta	August 1996
Illinois	
Westchester	March 1997
Indiana	
Indianapolis	March 1996
Maryland	
Annapolis	July 1999
Baltimore	June 1999
Rockville	January 1996
Massachusetts	
Waltham	September 1997
Michigan	
Ann Arbor	June 2001
Detroit	November 1997
Kalamazoo	April 1999
Lansing	May 1998
Minnesota	
Minnetonka	June 2000
Missouri	
St. Louis	August 2000
Montana	
Billings	March 1997
Nevada	
Las Vegas	January 2000
New Jersey	
Elmwood Park	March 1996
Mount Laurel	June 1997
New York	
Garden City	May 1996
New York	January 1996
White Plains	April 1996
Albany	April 2000
North Carolina	
Charlotte	June 1997
Raleigh	August 1997
Ohio	
Cleveland	November 1997
Columbus	October 1998
Oklahoma	
Oklahoma City	October 1996
Tulsa	October 1995
Pennsylvania	
Plymouth Meeting	April 1996
Pittsburgh	June 1998
South Carolina	
Greenville	June 1996
Charleston	October 2000
Tennessee	
Johnson City	April 1997
Texas	
Austin	June 1996
Arlington	June 1996
Houston	August 1996
San Antonio	June 1996
Virginia	
Fairfax	April 1996
Reston	August 2001
Wisconsin	
Madison	October 1996
Milwaukee	April 1999

Canada

Location	Opened
New Brunswick	
Moncton	September 1997
Ontario	
London	November 1994
Toronto (York Mills)	December 1994
Toronto (BCE Place)	May 1995
Waterloo	May 1999
Windsor	September 1993

The Company has leased premises for consultation offices in Halifax, Nova Scotia, Chicago, Illinois and Sheboygan, Michigan which have been set up to provide all aspects of patient care except provision of the actual surgery itself.

During fiscal 2001, the Company closed centers in Green Bay, Wisconsin, Seattle, Washington and Irvine, California. The Company sold its controlling interest in a center in Vancouver, British Columbia and abandoned plans to develop a center in Pasadena, California.

The Company also maintains investment interests in three secondary care practices located in Michigan, Oklahoma and Washington. The secondary care practice in Michigan has five satellite locations, the secondary care practice in Oklahoma has two satellite locations and the secondary care practice in Washington has seven satellite locations.

The Company also has two corporate offices. The International Headquarters is located in premises currently owned and operated by the Company in Mississauga, Ontario, Canada. The Company's U.S. Corporate Office is located in leased premises in Bethesda, Maryland. The Company has entered into negotiations concerning the possible sale and lease back of its International Headquarters building. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations".

ITEM 3. LEGAL PROCEEDINGS

Not Applicable

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

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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 2001				
First Quarter	C$12.20	C$7.70	$8.313	$5.00
Second Quarter	8.20	3.55	5.50	2.25
Third Quarter	12.00	1.67	7.875	1.125
Fourth Quarter	14.20	7.11	9.25	4.64
Fiscal 2000				
First Quarter	C$78.80	C$37.65	$53.50	$25.50
Second Quarter	47.50	23.75	31.82	16.16
Third Quarter	27.65	16.60	18.75	11.00
Fourth Quarter	22.50	9.50	15.44	6.50

Record Holders

As of July 31, 2001, there were approximately 499 record holders of the Common Shares.

Dividends

The Company has never declared or paid cash dividends on the Common Shares. It is the 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.

ITEM 6. SELECTED FINANCIAL DATA

Set forth in the following pages are selected historical consolidated financial data as of and for each of the fiscal years in the five-year period ended May 31, 2001, which have been derived from and should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included elsewhere in this Form 10-K. See Note 1 to "Item 8 – Financial Statement and Supplementary Data".

	Year Ended May 31				
	1997	1998	1999	2000	2001
Income Statement Data					
Amounts under U.S. GAAP(1)					
Net revenues(3)	20,112	59,122	146,910	201,223	174,006
Expenses					
Operating and doctor compensation	21,074	54,763	115,289	183,485	165,030
Interest and other	752	1,434	2,245	(4.492)	(2,543)
Depreciation and amortization	3,463	9,460	14,934	21,688	27,593
Start-up and development expenses	4,292	3,267	3,606	0	0
Restructuring charges	–	–	12,924	0	19,075
Gain (Loss) before income taxes and non-controlling interest	(9,469)	(9,802)	(2,088)	542	(35,149)
Income Taxes	(105)	(1,071)	(2020)	(3,454)	(2,239)
Non-controlling interest	–	593	(448)	(3,006)	(385)
Net loss for the period – U.S. GAAP	(9,574)	(10,280)	(4,556)	(5,918)	(37,773)
Loss per share - U.S. GAAP	(0.47)	(0.37)	(0.13)	(0.16)	(1.00)
Weighted average number of Common Shares outstanding (in thousands)	20,617	28,035	34,090	37,178	37,779

Operating Data	Year Ended May 31 1997	1998	1999	2000	2001
Number of eye care centers (at end of period)	27	45	55	62	59
Number of secondary care centers (at end of period)	7	15	14	5	3
Number of laser vision correction procedures	11,026(4)	35,859(5)	90,600	134,000	122,800

	As of May 31 1997	1998	1999	2000	2001
Balance Sheet Data					
Cash and cash equivalents	13,230	1,895	125,598	78,531	47,987
Working capital	8,055	53,15303	146,884	59,481	36,837
Total assets	73,746	164,212	295,675	289,364	238,438
Total debt, excluding current portion	10,935	17,911	11,030	6,728	8,313
Shareholders' equity					
Capital Stock	63,522	143,554	269,454	269,953	276,277
Warrants	-	-	-	532	532
Deficit	(12,141)	(22,421)	(31,267)	(42,388)	(80,161)
Accumulated other comprehensive income (loss)	-	407	5,936	(4,451)	(9,542)
	51,381	121,540	244,123	223,646	187,106

(1) In the financial information provided, the Company has reported in U.S. GAAP. In years prior to fiscal 2000, Form 10-K submissions and quarterly Form 10-Q submissions were reported in Canadian GAAP.

(2) Certain comparative figures have been reclassified to conform to the presentation for fiscal 2000.

(3) Includes primarily those revenues pertaining to the operation of eye care centers, the management of refractive and secondary care centers and the Company's other non-refractive businesses.

(4) Includes procedures performed at centers previously owned by 20/20 Laser Eye Centers Inc. ("20/20") starting March 1997. 20/20 was acquired by TLC on February 10, 1997.

(5) Includes procedures performed at centers previously owned by BeaconEye Inc. ("Beacon"). Beacon was acquired by TLC on April 16, 1998.

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 United States GAAP. Unless otherwise specified, all dollar amounts are U.S. dollars. See Note 1 to the Consolidated Financial Statements of the Company.

Overview

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

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

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

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

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

doctor's compensation per procedure ratio is higher than if these procedures had been included in the procedure volumes.

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

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

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

Results of Operations

2001	Refractive	Other	2001 Total
Revenues and physician costs:			
Net revenues	$ 161,219	$ 12,787	$ 174,006
Doctor compensation	15,538	--	15,538
Net revenue after doctor compensation	$ 145,681	$ 12,787	$ 158,468
Expenses			
Operating	134,324	15,168	149,492
Interest and other	(2,385)	(158)	(2,543)
Depreciation of capital assets and assets under capital lease	13,675	1,375	15,050
Amortization of intangibles	10,703	1,840	12,543
Restructuring and other charges	6,433	12,642	19,075
	162,750	30,867	193,617
Income (loss) from operations	(17,069)	(18,080)	(35,149)
Income taxes	(1,779)	(460)	(2,239)
Non-controlling interest	(370)	(15)	(385)
Net income (loss)	$ (19,218)	$(18,555)	$ (37,773)
Total assets	$ 234,355	$ 4,083	$ 238,438
Total capital and intangible expenditures	$ 36,296	$ 140	$ 36,436

2000	Refractive	Other	2000 Total
Revenues and physician costs:			
Net revenues	$ 190,233	$ 10,990	$ 201,223
Doctor compensation	17,333	2	17,335
Net revenue after doctor compensation	$ 172,900	$ 10,988	$ 183,888
Expenses			
Operating	153,673	12,477	166,150
Interest and other	(4,574)	82	(4,492)
Depreciation of capital assets and assets under capital lease	12,886	1,406	14,292
Amortization of intangibles	6,363	1,033	7,396
	168,348	14,998	183,346
Income (loss) from operations	4,552	(4,010)	542
Income taxes	(3,141)	(313)	(3,454)
Non-controlling interest	(2,443)	(563)	(3,006)
Net income (loss)	$ (1,032)	$ (4,886)	$ (5,918)
Total assets	$ 250,279	$ 39,085	$ 289,364
Total capital and intangible expenditures	$ 65,941	$ 8,477	$ 74,418

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

Net revenues for fiscal 2001 were $174.0 million, which is a 13.5% decrease over last year's $201.2 million. Approximately 92% of total net revenues were derived from refractive services as compared to 94% in fiscal 2000.

Net revenues from eye care centers for fiscal 2001 year were $161.2 million, which is 15.2% lower than last year's $190.2 million. Approximately 122,800 procedures were performed in fiscal 2001 compared to 134,200 procedures in fiscal 2000. The decrease in procedure volume and the associated reduction of revenue is indicative of the condition of the laser vision correction industry which has experienced uncertainty resulting from a wide range in consumer

prices for laser vision correction procedures, the recent bankruptcies of a number of deep discount laser vision correction companies as well as the ongoing safety and effectiveness concerns arising from the lack of long-term follow-up data and negative news stories focusing on patients with unfavourable outcomes from procedures performed at competing centers. The Company maintains its vision to be a premium provider of laser vision correction services in an industry that has faced significant pricing pressures. Due to the pricing pressures in the industry and the lower procedure prices offered pursuant to discounts associated with the Company's Corporate Advantage Program, the Company's net revenue after doctor compensation, per procedure, for fiscal 2001 declined by 8% in comparison to fiscal 2000.

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

Operating expenses and doctor compensation from refractive activities decreased to $149.9 million in fiscal 2001 from $171.0 million in fiscal 2000. This decrease is a result of: (i) reduced variable expenses associated with the decrease in the number of laser vision correction procedures performed at existing eye care centers, (ii) significant efforts made by the Company to reduce costs, (iii) significantly reduced costs associated with the Corporate Advantage Program and the third party payor programs, and (iv) reduced corporate costs which are subject to ongoing scrutiny to maintain an effective corporate structure able to support the current levels of business activity. Operating expenses and doctor compensation as a percentage of net revenues were 93% of net revenues in fiscal 2001 as compared to 90% of net revenues in fiscal 2000. This increase reflects the impact of marketing programs aimed at raising consumer awareness of TLC's brand as well as the impact on per procedure fees as a result of discounts offered pursuant to the Corporate Advantage Program, which were not offset by a higher number of procedures being performed at TLC centers. In addition, increased infrastructure costs (i.e. people, information systems and marketing) were incurred to support the continued growth of the Company. The Company recognized the effects the reduced procedure volumes were going to have on the operations, and in fiscal 2001 management commenced a number of cost reduction initiatives.

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

Net loss from non-refractive activities was $18.6 million in fiscal 2001, an increase of over 280% in comparison to a net loss of $4.9 million in fiscal 2000. The loss in fiscal 2001 includes a restructuring charge of $11.7 million (2000 - $0) resulting from the decision made by the Company to no longer support the activities of its e-commerce subsidiary eyeVantage.com,

Inc. Excluding the impact of the restructuring charge, eyeVantage.com, Inc., generated losses of $5.6 million (2000 - $3.8 million). The loss from the remaining non-refractive activities were $1.3 million, an increase from the loss in fiscal 2000 of $1.1 million. The increased loss in fiscal 2001 is due primarily to increased amortization of intangibles of $0.4 million at the Company's network marketing and management subsidiary resulting from increased goodwill arising from the finalization of the earn-out calculations arising from the Company's 1997 acquisition of this entity (see "Note 11 – Capital Stock – a) Common Stock" and "Note 17 – Acquisition – 2001 Transactions – ii and 2000 Transactions iv.").

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary of Restructuring and Other Charges ($ 000's)	Restructuring charges				Other charges				
	eyeVantage .com Inc.	Closure of laser centers	Sale of laser center	Terminate development of laser center	Consulting services	Impairment in Vision America investment	Legal arbitration settlement accrual	Potential losses re equity investment	Total
Severances	1,712	70							1,782
Lease commitments	808	280		122					1,210
Legal and Administrative costs	296						2,100		2,396
Professional services					1,600				1,600
Patient commitments		50							
Asset write-downs									-
Current assets	425	86							511
Fixed Assets	2,091	865							2,956
Intangibles	8,713	34							8,747
Investments and other assets			160			936		977	2,073
Recovery of purchase obligations	(2,380)								(2,380)
Write off of minority interest			130						130
Total restructuring and other charges	11,665	1,385	290	122	1,600	936	2,100	977	19,075
Impact on Fiscal 2001 earnings									
Revenue	21	1,941	1,023	-					
Doctor Compensation	-	372	158						
Net revenues after doctor compensation	21	1,569	865	-					
Expenses:									
Operating expenses	3,011	1,935	1,191						
Interest and other (1)	1,739	226	22						
Depreciation of assets	186	395	180						
Amortization of intangibles	724	3	-						
	5,660	2,559	1,393	-					
Loss from operations excluding restructuring and other charges	(5,639)	(990)	(528)	-					
Number of months of operations during fiscal 2001 (2)	5	7	11	n/a					

(1) Interest expense at eyeVantage was from funding from affiliated companies which is eliminated in consolidated reporting.

(2) Reflects weighted average re revenue of three centers being closed

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

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

The loss for fiscal 2001 was $37.8 million or $1.00 per share, compared to a loss of $5.9 million or $0.16 cents per share for fiscal 2000. This increased loss reflects the impact of extensive losses from the activities in the eye care e-commerce subsidiary, restructuring and other charges, reduced revenues, increased amortization in intangibles and the continuing investment in staff, information systems and marketing. The Company has undertaken initiatives intended to address patient, optometric and ophthalmic industry trends and expectations to improve laser vision correction procedure and revenue volumes. Cost initiatives are targeting effective use of funds and a growth initiative is focusing on the future development opportunities for the Company in the laser vision correction industry.

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

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

Net revenues from eye care centers for fiscal 2000 were $190.24 million, which was 44% higher than the prior year's $132.4 million. More than 134,200 procedures were performed in fiscal 2000 compared to 90,600 procedures in fiscal 1999. The increased revenues reflected growth in the number of procedures at existing sites due to the increased acceptance of the procedure in the marketplace, as well as the development of new centers and the acquisition of centers. Despite the pricing pressures in the industry and the development of the Company's Corporate Advantage Program, the Company's net revenue after doctor compensation, per procedure, for fiscal 2000 declined less than 3% in comparison to fiscal 1999.

Operating expenses and doctor compensation from refractive activities increased to $171.0 million in the fiscal year 2000 from $102.7 million in fiscal 1999. This increase is a result of: (i) increased variable expenses associated with the increase in the number of laser vision correction procedures performed at existing eye care centers, (ii) increased fixed and variable costs from the addition of new eye care centers, (iii) higher marketing costs, (iv) costs associated with the Corporate Advantage Program and third party payor programs, and (v) increased corporate costs to support the higher level of business activity.

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

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

Net loss from non-refractive activities excluding restructuring and other charges was $4.9 million in fiscal 2000 and increase of over 22% in comparison to a net loss of $4.0 million in fiscal 1999. In fiscal 2000, the Company incurred losses of $3.8 million from its e-commerce subsidiary eyeVantage.com, Inc. In fiscal 1999, excluding restructuring and other charges, the Company incurred losses of $3.6 million from its managed care subsidiary.

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

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

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

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

The loss for fiscal 2000 was $5.9 million or $0.16 per share, compared to a loss of $4.6 million or $0.13 cents per share for fiscal 1999. This loss reflected the Company's continued investment in staff, information systems and marketing, which was not fully offset by increased procedure volumes. The improved performance in secondary care operations and the disposal of the managed health care business were offset by losses in the eye care e-commerce subsidiary.

Liquidity and Capital Resources

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

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

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

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

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

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

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

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

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

Cash Provided by Operating Activities

Net cash provided by operating activities decreased by $8.0 million to $15.0 million in fiscal 2001 from $23.0 million in fiscal 2000. Net cash provided by operating activities in fiscal 2001 primarily represents cash earnings (defined as net loss adding back amortization and depreciation, gain or loss on the sale of fixed assets, non-cash restructuring costs, income tax provision and minority interest included as part of net income) of $8.8 million (2000 - $23.8 million), a reduction in accounts receivable of $5.2 million (2000 - $0), reduction in accounts payable of $4.7 million (2000 - increase of $4.2 million), net refund of prior period tax instalments of $3.8 million (2000 – payments of $6.7 million) and a reduction of prepaid expenses and other assets net of liabilities of $1.9 million (2000 - $1.7 million).

Cash Used in Financing Activities

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

Cash Used in Investing Activities

Net cash used in investing activities decreased by $25.5 million in fiscal 2001 to $30.5 million from $56.0 million in fiscal 2000. Net cash used in investing activities in fiscal 2001 primarily represents the purchase of fixed assets and the cash component of assets under capital lease of $10.7 million (2000 - $26.2 million), cash costs of acquisitions and investments of $17.3 million (2000 - $56.5 million), the purchase of short term investments of $6.1 million (2000 – sale of $26.2 million) offset by proceeds from the sale of fixed assets, assets under capital lease and investments of $3.6 million (2000 - $0.4 million).

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

Other Business Segments

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

New Accounting Pronouncements

Under SEC Staff Accounting Bulletin 74, the Company is required to disclose certain information related to new accounting standards, which have not yet been adopted due to delayed effective dates.

The Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 137, "Deferral of Effective Date for SFAS No. 133" which are effective for fiscal years beginning after June 15, 2000. The Company will adopt this standard in fiscal 2002 which begins on June 1, 2002 and management has determined that the impact of adopting SFAS No. 133 will not be material on the consolidated financial position or results of operations of the Company.

The FASB has approved SFAS 141 and 142 on business combinations and accounting for goodwill and intangibles prospectively and will eliminate the pooling of interests method of accounting and amortization of goodwill. Under the new standard, goodwill will be tested annually for impairment. The Company has $32,752,000 of goodwill included in its balance sheet at May 31, 2001. Goodwill amortization for the years ended May 31, 2001, 2000 and 1999 was $3,784,000, $3,053,000 and $3,060,000 respectively and is expected be approximately $2,832,000 for the year ended May 31, 2002 before the provisions of the new standard. The new standards are effective for business combinations completed after June 30, 2001 and for goodwill and intangibles existing at June 30, 2001 for fiscal years beginning after December 15, 2001.

ITEM 7A. MARKET RISK

In the ordinary course of business, the Company is exposed to interest rate risks and foreign currency risks, which the Company does not currently consider to be material. These exposures primarily relate to having short-term investments earning short-term interest rates and to having fixed rate debt. The Company views its investment in foreign subsidiaries as a 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 Laser Eye Centers Inc.** have been prepared by management in conformity with accounting principles generally accepted in the United States consistently applied. The most significant of these accounting policies has been set out in Note 1 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 judgement. 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.

The Board of Directors has appointed an Audit Committee consisting of four outside directors. The committee meets during the year to review with management and the auditors any significant accounting, internal control and auditing matters and to review and finalize the annual financial statements of the Company along with the independent auditors' report 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.

External Auditors

The auditors' opinion is based upon an independent and objective examination of the Company's financial results for the year, conducted in accordance with generally accepted auditing standards. This examination encompasses an understanding and evaluation by the auditors of the Company's accounting systems as well as the obtaining of a sound understanding of the Company's business. The external auditors conduct appropriate tests of the Company's transactions and obtain sufficient audit evidence in order to provide them with reasonable assurance that the financial statements are presented fairly in conformity with accounting principles generally accepted in United States, thus enabling them to issue their report to the shareholders.

Ernst & Young LLP, Chartered Accountants, the Company's external auditors for fiscal 2001, have examined the consolidated balance sheets of the Company as of May 31, 2001 and 2000 and the related consolidated statements of loss, stockholders' equity and cash flows for each of the years in the three year period ended May 31, 2001 and have reported thereon in their July 6, 2001 report.

INDEPENDENT AUDITORS' REPORT

To the Directors of TLC Laser Eye Centers Inc.

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

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

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

We have also audited Schedule II – Valuation and Qualifying Accounts and Reserves included in the Company's Form 10-K for the years ended May 31, 2001, 2000 and 1999 which is presented for purposes of additional analysis and is not a required part of the basic financial statements. In our opinion, this schedule presents fairly the information contained therein in all respects to the financial statements.

Toronto, Canada,

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

ERNST & YOUNG LLP
Chartered Accountants

TLC LASER EYE CENTERS INC.
CONSOLIDATED STATEMENTS OF LOSS

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

	Years Ended May 31,		
	2001	**2000**	**1999**
Net revenues			
Refractive	$161,219	$190,233	$132,428
Other	12,787	10,990	14,482
Net revenues (Note 15)	174,006	201,223	146,910
Expenses			
Doctor compensation			
Refractive	15,538	17,335	12,824
Operating	149,492	166,150	102,465
Interest and other (Note 12)	(2,543)	(4,492)	2,245
Depreciation of capital assets and assets under capital lease (Note 12)	15,050	14,292	11,052
Amortization of intangibles (Note 12)	12,543	7,396	3,882
Start-up and development expenses	--	--	3,606
Restructuring and other charges (Note 18)	19,075	--	12,924
	209,155	200,681	148,998
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	(35,149)	542	(2,088)
Income taxes (Note 13)	(2,239)	(3,454)	(2,020)
Non-controlling interest	(385)	(3,006)	(448)
NET LOSS FOR THE YEAR	$(37,773)	$(5,918)	$(4,556)
LOSS PER SHARE - Basic and Diluted	$(1.00)	$(0.16)	$(0.13)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING –	37,778,955	37,178,253	34,090,316

TLC LASER EYE CENTERS INC.
CONSOLIDATED BALANCE SHEETS
(U.S. dollars, in thousands)

	As at May 31,	
	2001	**2000**
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2, 3 and 16)	$47,987	$78,531
Short-term investments (Note 3)	6,063	--
Accounts receivable (Note 16)	9,950	15,527
Income taxes recoverable	--	4,734
Prepaid expenses and sundry assets	4,501	5,922
Total current assets	68,501	104,714
Restricted cash (Notes 2 and 3)	1,619	1,722
Investments and other assets (Note 4)	23,171	29,478
Intangibles (Note 5)	92,802	89,297
Fixed assets (Note 6)	44,963	53,431
Assets under capital lease (Note 7)	7,382	10,722
Total assets	$238,438	$289,364
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$15,028	$21,467
Accrued purchase obligations (Note 17)	3,000	13,200
Accrued restructuring costs (Note 18)	718	--
Accrued wage costs	3,652	2,974
Accrued legal settlements (Note 18)	2,100	--
Income taxes payable	397	--
Current portion of long-term debt (Notes 8 and 17)	3,826	2,332
Current portion of obligations under capital leases (Note 9)	2,943	5,260
Total current liabilities	31,664	45,233
Long-term debt (Notes 8 and 17)	7,032	2,922
Obligations under capital leases (Note 9)	1,281	3,806
Deferred rent (Note 10)	617	915
Total liabilities	40,594	52,876
Non-controlling interest	10,738	12,842
Commitments and contingencies (Notes 14 and 17)		
STOCKHOLDERS' EQUITY		
Capital stock: (Note 11)		
Common stock, no par value; unlimited number authorized;	276,277	269,953
Warrants	532	532
Deficit	(80,161)	(42,388)
Accumulated other comprehensive loss	(9,542)	(4,451)
Total stockholders' equity	187,106	223,646
Total liabilities and stockholders' equity	$238,438	$289,364

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

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

TLC LASER EYE CENTERS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars, in thousands)

	Years Ended May 31,		
	2001	2000	1999
Operating activities			
Net loss for the year	$(37,773)	$(5,918)	$(4,556)
Items not affecting cash			
Depreciation and amortization	27,593	21,688	14,934
Write-off of goodwill	--	489	--
Loss on sale of fixed assets and assets under capital lease	1,946	1,099	229
Deferred income taxes	-	1,320	1,204
Non-cash restructuring and other costs	14,395	--	11,167
Non-controlling interest	385	3,006	448
Other	292	780	252
Changes in non-cash operating items			
Accounts receivable	5,232	(15)	(9,247)
Prepaid expenses and sundry assets	1,891	1,047	(2,208)
Accounts payable and accrued liabilities	(4,711)	4,153	10,350
Income taxes payable, net	6,051	(4,574)	(162)
Deferred rent and compensation	(298)	(44)	(275)
Cash provided by operating activities	15,003	23,031	22,136
Financing activities			
Restricted cash	103	8	356
Proceeds from debt financing	226	826	25
Principal payments of debt financing	(2,257)	(2,635)	(6,668)
Payments of accrued purchase obligations	(3,620)	--	--
Principal payments of obligations under capital leases	(4,840)	(5,063)	(3,302)
Contributions from non-controlling interests	--	2,365	1,305
Distributions to non-controlling interests	(4,865)	(1,569)	(1,233)
Payments related to the purchase and cancellation of capital stock	(481)	(10,365)	(5,387)
Proceeds from issuance of capital stock	711	2,384	129,607
Cash provided by (used in) financing activities	(15,023)	(14,049)	114,703
Investing activities			
Purchase of fixed assets and assets under capital lease	(10,656)	(26,153)	(17,843)
Proceeds from sale of fixed assets and assets under capital lease	2,491	185	--
Proceeds from the sale of investments	1,117	227	--
Acquisitions and investments	(17,345)	(56,496)	(22,316)
Short-term investments	(6,063)	26,212	(26,212)
Other	(68)	(24)	(68)
Cash used in investing activities	(30,524)	(56,049)	(66,439)
Net increase (decrease) in cash and cash equivalents during the year	(30,544)	(47,067)	70,400
Cash and cash equivalents, beginning of year	78,531	125,598	55,198
Cash and cash equivalents, end of year	$47,987	$78,531	$125,598

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

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

(U.S. dollars, in thousands)

	Common stock		Warrants				
	Number of Shares (000's)	Amount $	Number of Warrants (000's)	Amount $	Deficit $	Other Accumulated Comprehensive Income (Loss) $	Total $
Balance, May 31, 1998	33,668	143,554	—	—	(22,421)	407	121,540
Shares issued for acquisitions	50	837					837
Shares issued to acquire other assets	50	728					728
Shares purchased for cancellation	(256)	(1,095)			(4,290)		(5,385)
Exercise of stock options	773	3,073					3,073
Shares issued as remuneration	40	600					600
Shares issued as part of the employee share purchase plan	47	750					750
Public offering, net of issue costs	2,990	121,007					121,007
Comprehensive income (loss)							
Net loss					(4,556)		
Other comprehensive income (loss)							
Unrealized gains/losses on available for-sale securities						5,529	
Total comprehensive income (loss)							973
Balance, May 31, 1999	37,362	269,454	—	—	(31,267)	5,936	244,123
Warrants issued			100	532			532
Shares issued for acquisition	302	728					728
Value determined for shares issued contingent on meeting earnings criteria	—	1,397					1,397
Shares purchased for cancellation	(710)	(5,162)			(5,203)		(10,365)
Exercise of stock options	87	1,314					1,314
Shares issued as remuneration	44	387					387
Shares issued as part of the employee share purchase plan	65	1,696					1,696
Reversal of IPO costs, over accrual	—	139					139
Comprehensive income (loss)							
Net loss					(5,918)		
Other comprehensive income (loss)							
Unrealized gains/losses on available for-sale securities						(10,387)	
Total comprehensive income (loss)							(16,305)
Balance May 31, 2000	37,150	269,953	100	532	(42,388)	(4,451)	223,646
Shares issued for acquisition	832	6,059					6,059
Shares purchased for cancellation	(108)	(481)					(481)
Exercise of stock options	40	125					125
Shares issued as remuneration	5	35					35
Shares issued as part of the employee share purchase plan	112	586					586
Comprehensive income (loss)							
Net loss					(37,773)		
Other comprehensive income (loss)							
Unrealized gains/losses on available for-sale securities						(5,091)	
Total comprehensive income (loss)							(42,864)
Balance May 31, 2001	38,031	276,277	100	532	(80,161)	(9,542)	187,106

TLC LASER EYE CENTERS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(all amounts in U.S. dollars, except where noted and all tabular amounts in thousands)

Nature of Operations

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

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

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

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

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

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

The provision of medical services entails an inherent risk of potential malpractice and other similar claims. Although the Company does not engage in the practice of medicine, there can be no assurance that claims relating to services provided at the Company's centers will not be asserted against the Company. The Company currently maintains malpractice insurance that it

believes to be adequate both as to risks and amounts. In addition, the doctors providing medical services at the Company's centers are required to maintain insurance.

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

1. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Fixed Assets and Assets Under Capital Lease

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

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

Intangible Assets

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

The practice management agreements represent the cost of obtaining the exclusive right to manage eye care centers and secondary care centers in affiliation with the related physician group during the term of the agreements. Practice management agreements are amortized using

the straight-line method over the term of the related employment agreement, to a maximum of fifteen years. The current amortization periods range from five to fifteen years.

Impairment of Long-lived Assets

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" establishes accounting standards for the impairment of long-lived assets. For fixed assets and certain intangibles, the Company assesses the recoverability by determining whether the carrying value of such assets can be recovered through projected undiscounted cash flows. If the sum of expected future cash flows, undiscounted and without interest charges, is less than net book value, the excess of the net book value over the estimated fair value is charged to operations in the period in which such impairment is determined by management.

Start-up and Development Expenses

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

Revenues

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

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

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

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

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

Income Taxes

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. 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. See note 13 for discussion of income taxes.

Cash equivalents

Cash equivalents include highly liquid short-term investments with original maturities of 90 days or less. Cash equivalents, are classified as held-to-maturity securities and are carried at amortized cost.

Short-term investments

Short-term investments, which consist principally of corporate bonds, are classified as held-to-maturity securities and are carried at amortized cost.

Accounting for Stock-based Compensation

The Company accounts for employee stock options using the intrinsic value method in accordance with Accounting Principles Board Opinion No 25, "Accounting for Stock Issued to Employees" and makes the pro forma disclosures required by SFAS No. 123, "Accounting for Stock-Based Compensation".

Marketing Costs

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

Foreign Exchange

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

Contingent Consideration

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

Use of Estimates

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

New Accounting Standards

The Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 137, "Deferral of Effective Date for SFAS No. 133" which are effective for fiscal years beginning after June 15, 2000. The Company will adopt this standard in fiscal 2002 which begins on June 1, 2002 and management has determined that the impact of adopting SFAS No. 133 will not be material on the consolidated financial position or results of operations of the Company.

The Financial Accounting Standards Board issued Statement No. 141, "Business Combinations", which requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method of accounting. The Financial Accounting Standards Board also issued

Statement No. 142, "Goodwill and Other Intangible Assets", which eliminates the amortization of goodwill and indefinite life intangible assets and requires these assets to be tested annually for impairment. For goodwill and other intangible assets existing at June 30, 2001, the new Statement must be applied for fiscal years beginning after December 15, 2001, with earlier adoption permitted. For goodwill and other intangible assets resulting from business combinations completed after June 30, 2001, the Statement must be adopted immediately. The Company is currently determining the impact of the new statements.

2. Cash and Cash Equivalents

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

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

3. Marketable Securities

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

	2001	2000
Type of security		
U.S. dollar corporate debt	$ 17,220	$ 60,653
U.S. dollar fixed deposit	29,421	14,460
Cdn. dollar fixed deposit	689	773
	$ 47,330	$ 75,886

Contractual maturity		
Maturing in one year or less	$ 45,711	$ 74,164
Maturing after one year through three years	1,619	1,722
	$ 47,330	$ 75,886

Classification in the consolidated balance sheets		
Cash equivalents	$ 39,648	$ 74,164
Short-term investments	6,063	--
Restricted cash	1,619	1,722
	$ 47,330	$ 75,886

4. Investments and Other Assets

2000	2001	2000
Portfolio investments [1]	17,649	$23,444
Long-term receivables [2]	4,950	4,904
Other	572	1,130
	23,171	$29,478

(1) On June 8, 1998 the Company made a portfolio investment of $8,000,000 in cash through the purchase of 2,000,000 preference shares in LaserSight Incorporated. These preference shares were convertible to LaserSight Incorporated common shares at $4.00 per share in June 2001. On March 24, 1999, the Company made an additional $2,000,000 investment to purchase 500,000 common shares in LaserSight Incorporated. On January 28, 2000, the Company made an additional $10,000,000 investment to purchase 1,015,873 common shares of LaserSight Incorporated. LaserSight Incorporated is a publicly traded United States manufacturer of excimer lasers, microkeratomes and microkeratome blades with limited approval for its excimer laser. The Company's fully diluted ownership interest in LaserSight Incorporated is 15.0%.

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

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

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

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

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

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

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

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

5. Intangibles

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

6. Fixed Assets

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

7. Assets under Capital Lease

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

8. Long-Term Debt

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

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

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

9. Obligations under Capital Leases

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

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

10. Deferred Compensation and Rent

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

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

11. Capital Stock

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

a) Common Stock

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

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

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

iv) On September 24, 1998, the Company exercised a contractual option to purchase 116,771 common shares from the Goldstein Family Trust for $1,264,411 in cash. The common shares were then cancelled and capital stock was reduced using the average value of common shares as of November 30, 1998 of Cdn.$6.20 per share. The remaining allocation of the cash paid for the shares was reflected as a reduction in deficit. In addition, shares were retired in connection with a divestiture (Note 18).

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

b) Warrants

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

c) Options

At May 31, 2001, the Company has reserved 5,116,000 common shares for issuance under its stock option plan for corporate employees and certain other individuals. Options granted have terms ranging from five to eight years. Vesting provisions on options granted to date include options that vest immediately, options that vest in equal amounts annually over the

first four years of the option term and options that vest entirely on the first anniversary from the grant date. Those exercise prices, which are denominated in Canadian dollars, for options outstanding as of May 31, 2001 range as follows:

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

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

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

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

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

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

SFAS No. 123, "Accounting for Stock-based Compensation", became effective for the Company's 1997 fiscal year. The Company continues to account for its outstanding fixed price stock options under Accounting Principles Board Opinion No.25, "Accounting for Stock Issued to Employees", which results in the recording of no compensation expense in the Company's circumstances. Had compensation expense for stock options granted been determined based upon fair value at the grant date consistent with the methodology prescribed by SFAS No. 123, the pro forma effects of fiscal 2001, 2000 and 1999 grants on the net loss and loss per share amounts for the years ended May 31, 2001, 2000 and 1999 would have been as follows:

	2001	2000	1999
Net loss under U.S. GAAP	$(37,773)	$(5,918)	$(4,556)
Adjustments for SFAS 123	(1,847)	(2,806)	(3,784)
Pro forma net loss under U.S. GAAP	$(39,620)	$(8,724)	$(8,340)
Pro forma loss per share under U.S. GAAP	$(1.05)	$(0.23)	$(0.24)

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 of 6.75% for fiscal 1999, 7.5% for fiscal 2000 and 6.5% for fiscal 2001; dividend yield of 0%; volatility factors of the expected market price of the Company's common shares of 0.66 for fiscal 1999, 0.71 for fiscal 2000 and 0.83 for fiscal 2001; and a weighted average expected option life of 3.3 years for fiscal 1999, 3.5 years for fiscal 2000 and 4.0 years for fiscal 2001. The fair market value of the options granted during the fiscal year ended May 31, 2001 is $3,108,000 (2000 - $5,800,000; 1999 - $6,420,000). The Black-Scholes option pricing model was developed for use in estimating fair value of traded options which have no vesting restrictions and are fully transferable. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the above pro forma adjustments for SFAS 123 are not necessarily a reliable single measure of the fair value of the Company's employee stock options.

12. Interest and Other and Depreciation and Amortization

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

13. Income Taxes

Deferred income taxes consist of the following temporary differences:

	2001	2000	1999
Assets:			
Tax benefit of loss carryforwards			
Pre-acquisition	$ 8,034	$ 9,538	$11,785
Post-acquisition	12,913	6,453	6,094
Start-up costs	191	954	1,816
Fixed assets	1,362	--	--
Intangibles	2,444	819	--
Comprehensive income	5,580	2,136	--
Other	1,607	2,296	1,556
Valuation allowance	(30,429)	(16,346)	(17,345)
	$1,702	$5,850	$3,906
Liabilities:			
Practice management agreements	$1,702	$1,848	$1,771
Fixed assets	--	4,002	2,135
Comprehensive income	--	--	4,525
	$1,702	$5,850	$8,431
	--	--	$4,525

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

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

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

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

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

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

The provision for income taxes is as follows:

	2001	1999	1998
Current:			
Canada	$ 111	$322	$34
United States – federal	929	2,541	1,441
United States – state	645	502	545
Other	554	89	--
	$ 2,239	$3,454	$2,020

14. Commitments and Contingencies

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

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

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

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

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

15. Segmented Information

The Company has two reportable segments: refractive and other. The refractive segment is the core focus of the Company which reflects the provision of laser vision correction. The other segment includes an accumulation of non-core business activities including the management of secondary care centers which provide advanced levels of eye care, activities involving the development of eyeVantage.com as an internet based company and managed care (applicable only in 1999 and prior). In 1999, activity in the secondary care reflected a larger portion of the business activity and was presented as a separate segment. The disposal of the management of

certain secondary care sites during 1999 has reduced the magnitude of activities from secondary care such that a separate segment for secondary care is no longer meaningful.

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

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

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

The Company's business segments are as follows:

2001	**Refractive**	**Other**	**Total**
Revenues and physician costs:			
Net revenues	$161,219	$12,787	$174,006
Doctor compensation	15,538	--	15,538
Net revenue after doctor compensation	$145,681	$12,787	$158,468
Expenses:			
Operating	134,324	15,168	149,492
Interest and other	(2,385)	(158)	(2,543)
Depreciation of capital assets and assets under capital lease	13,675	1,375	15,050
Amortization of intangibles	10,703	1,840	12,543
Restructuring and other charges	6,433	12,642	19,075
	162,750	30,867	193,617
Loss from operations	(17,069)	(18,080)	(35,149)
Income taxes	(1,779)	(460)	(2,239)
Non-controlling interest	(370)	(15)	(385)
Net loss	$(19,218)	$(18,555)	$(37,773)
Total assets	$234,355	$4,083	$238,438
Total fixed and intangible expenditures	$36,296	$140	$36,436

2000

	Refractive	Other	Total
Revenues and physician costs:			
Net revenues	$190,233	$10,990	$201,223
Doctor compensation	17,333	2	17,335
Net revenues after doctor compensation	$172,900	$10,988	$183,888
Expenses:			
Operating	153,673	12,477	166,150
Interest and other	(4,574)	82	(4,492)
Depreciation of capital assets and assets under capital lease	12,886	1,406	14,292
Amortization of intangibles	6,363	1,033	7,396
	168,348	14,998	183,346
Income (loss) from operations	4,552	(4,010)	542
Income taxes	(3,141)	(313)	(3,454)
Non-controlling interest	(2,443)	(563)	(3,006)
Net (loss)	$(1,032)	$(4,886)	$(5,918)
Total assets	$250,279	$39,085	$289,364
Total fixed and intangible expenditures	$65,941	$8,477	$74,418

1999

	Refractive	Secondary Care	Other	Total
Revenues and physician costs:				
Net revenues	$132,428	$11,389	$3,093	$146,910
Doctor compensation	12,824	--	--	12,824
Net revenues after doctor compensation	$119,604	$11,389	$3,093	$134,086
Expenses:				
Operating	89,875	8,972	3,618	102,465
Interest and other	2,343	(125)	27	2,245
Depreciation of capital assets and assets under capital lease	9,804	986	262	11,052
Amortization of intangibles	2,546	1,201	135	3,882
Start-up and development expenses	--	--	3,606	3,606
Restructuring charges (non-cash portion - $11,167)	--	10,298	2,626	12,924
	104,568	21,332	10,274	136,174
Income (loss) from operations	15,036	(9,943)	(7,181)	(2,088)
Income taxes	(1,820)	--	(200)	(2,020)
Non-controlling interest	(800)	(376)	728	(448)
Net loss	$12,416	$(10,319)	$(6,653)	$(4,556)
Total assets	$274,846	$16,678	$4,151	$295,675
Total fixed and intangible expenditures	$25,803	$7,707	$2,026	$35,536

The Company's geographic segments are as follows:

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

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

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

16. Financial Instruments

Fair Value

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

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

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

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

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

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

Risk Management

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

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

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

17. Acquisitions

2001 Transactions

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

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

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

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

iv. During the first quarter of fiscal 2001, eyeVantage.com, Inc., an 83% subsidiary of the Company, did not make the initial installment on a $3,000,000 obligation which arose from the 2000 transaction in which eyeVantage.com, Inc. acquired the operating assets and liabilities of Eye Care Consultants, Inc. in exchange for shares of eyeVantage.com, Inc. with a value of $3,000,000 which were to be issued in connection with a proposed public offering of eye Vantage.com, Inc. shares. Since the public offering was not completed, the Company

was required to make eight equal quarterly installments equaling $3,000,000, the first of which was due on June 30, 2000. The June 30th payment was not made and future installments are currently under dispute.

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

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

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

2000 Transactions

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

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

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

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

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

(v) On December 31, 1999, the earn-out period relating to the 1997 acquisition of 100% of The Vision Source, Inc. was completed. 210,902 shares of the Company with a value of $1,397,000 as determined by the acquisition agreement were released from escrow to the sellers of The Vision Source, Inc. An additional 536,764 shares valued at $4,056,000 were issued in August 2001 to the sellers of The Vision Source, Inc. to reflect the final calculation of contingent amounts as determined by the earn-out formula.

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

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

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

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

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

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

1999 Transactions

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

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

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

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

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

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

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

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

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

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

Current assets (including cash of $2,428)	$2,261
Fixed assets	1,674
Goodwill	7,648
Practice management agreements	6,060
Current liabilities	(621)
Long-term debt	(1,221)
Non-controlling interest	(476)
	$15,325
Funded by:	
Issuance of common shares	$837
Issuance of debt	738
Contribution of cash	13,465
Acquisition costs	285
	$15,325

Under APB 16, the Company is required to disclose the following information relating to its acquisitions:

If the operating assets and liabilities of the Maryland PC had been acquired on June 1, 1999, the unaudited pro forma effects on the consolidated statements of loss for the fiscal years ended May 31, 2000 and 2001 would have been additional revenues of $4,212,007 and $3,503,973 respectively, a reduction in losses of $911,955 and $825,888 respectively and a reduction in the earnings per share loss of $0.02 in both periods.

If the operating assets and liabilities of Laser Eye Care of California, LLC had been acquired on June 1, 1998, the unaudited pro forma effects on the consolidated statements of loss for the fiscal years ended May 31, 1999 and 2000 would have been additional revenues of $14,599,000 and $2,275,000 respectively and additional losses of $923,000 or $(0.03) per share in the fiscal year ended May 31, 1999 and a reduction of losses of $65,000 or $0.00 per share in the fiscal years ended May 31, 2000.

The above unaudited pro forma information is presented for information purposes only and may not be indicative of the results of operations as they would have been if the acquisitions had occurred on June 1, 1999 or June 1, 1998, nor is it necessarily indicative of the results of operations which may occur in the future. Anticipated efficiencies from the combination have been excluded from the amounts included in the pro forma information.

18. Restructuring and Other Charges

Fiscal 2001

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

(a) The decision to close the activities at eyeVantage.com, Inc. resulted in a restructuring charge of $11.7 million which reflects the estimated impact of the write-down of goodwill of $8.7 million, loss/write down of fixed assets of $2.1 million, employee termination costs of $1.7 million representing the termination costs of 29 employees, accounts receivable losses of $0.4 million and $1.1 million of costs incurred in the closing process which includes legal costs and administrative costs. These losses are offset by a gain of $2.3 million resulting from the reduction in the purchase obligation associated with the Optical Options, Inc., acquisition (See "Note 17. Acquisitions – 2001 Transactions – iii.").
(b) The Company has provided $1.0 million for potential losses in amounts outstanding from an equity investment in a secondary care activity.
(c) The Company has closed three eye care centers, terminated plans for another and sold its ownership in another and has estimated losses of $1.8 million resulting from these decisions.
(d) The Company has undertaken an extensive review of internal structures, its marketplace, its resources and its strategies for the future. The review is resulting in the restructuring of the Company's goals and structures to meet its future needs. The Company has utilized the services of a national consulting firm to facilitate this internal restructuring process, whose participation in this assignment was completed in the third quarter with an associated cost of $1.6 million.
(e) The Company has provided $0.9 million for losses on portfolio investments in Vision America where it is felt that there has been a permanent impairment in the value of the Company's holdings.
(f) In the fourth quarter, an award from an arbitration hearing involving TLC Network Services Inc. was issued against TLC. The cumulative liability arising from the award was $2.1 million which has been fully provided for in the fourth quarter. Payment of this liability has been deferred until exploration of all legal alternatives has been completed.

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

Fiscal 1999

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

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

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

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

19. Supplemental Cash Flow Information

Non-cash transactions:

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

Cash paid for the following:

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

20. Subsequent Events

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

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

	Balance at beginning of year	Expense provision	Other	Deductions- Uncollectable Amounts	Balance at end of year
			(in thousands)		
Fiscal 1999					
Doubtful accounts receivable	$ 1,668	$ 729	$ -	$ (918)	$ 1,479
Provision against investments and other assets	-	-	-	-	-
Fiscal 2000					
Doubtful accounts receivable	1,479	2,553	-	(1,183)	2,849
Provision against investments and other assets	-	-	-	-	-
Fiscal 2001					
Doubtful accounts receivable	2,849	646	-	(2,335)	1,160
Provision against investments and other assets	$ -	$ 1,913	$ -	$ -	$ 1,913

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Except as set forth below in this Item 10, 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 May 31, 2001.

Directors and Executive Officers

The following table indicates the names, ages and positions of the Company's directors, officers and key employees. There is no family relationship between any of the directors, officers or key employees.

Name	Age	Position with Company
Elias Vamvakas (3)	43	Chief Executive Officer and Chairman of the Board of Directors
Thomas G. O'Hare	49	President and Chief Operating Officer
Dr. Jeffery J. Machat	39	Co-National Medical Director and Director
Dr. David C. Eldridge	47	Executive Vice President, Clinical Affairs
Jay Peters	49	Executive Vice President, Chief Marketing Officer
Paul Frederick	56	Executive Vice President, Human Resources
Brian Park	44	Controller
Lloyd D. Fiorini	35	General Counsel and Secretary
William P. Leonard	36	Executive Vice President, Operations
Madeline D. Walker	54	Executive Vice President
Henry Lynn	50	Executive Vice President, Information Systems
John F. Riegert (2)(3)	71	Director
Howard J. Gourwitz (1)(2)	53	Director
Thomas N. Davidson (1)(2)	61	Director
Warren S. Rustand (1)(2)(3)	58	Director
Dr. William David Sullins, Jr.(1)(3)	58	Director

(1) Member of the Company's Compensation Committee.
(2) Member of the Company's Audit Committee.
(3) Member of the Company's Corporate Governance Committee.

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 May 31, 2001.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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 May 31, 2001.

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 May 31, 2001.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(1) The following consolidated financial statements of registrant and its subsidiaries and report of independent auditors are included in Item 8 hereof.

Report of Independent Auditors.

Consolidated Statements of Income - Years Ended May 31, 1999, 2000 and 2001.

Consolidated Balance Sheets as of May 31, 2000 and 2001.

Consolidated Statements of Deficit - Years Ended May 31, 1999, 2000 and 2001.

Consolidated Statements of Changes in Financial Position — Years Ended May 31, 1999, 2000 and 2001.

Notes to Consolidated Financial Statements

Schedule II – Valuation and Qualifying Accounts and Reserves

(2) Except as provided below, all schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange 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.

None

(3) The following exhibits are provided with this Form 10-K:

Exhibit Number	**Description**
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	By-Laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's 10-K filed with the Commission on August 28, 1998).
4.1	The Company is a party to several agreements defining the rights of holders of long-term debt. No such instrument authorizes an amount of securities in excess of 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis. On request, the Company agrees to furnish a copy of each such instrument to the Commission.

10.1 Material Contracts:

<u>Certain Management Contracts, Compensatory Plans, Contracts or Arrangements</u>:

(a) TLC Amended and Restated Share Option Plan (incorporated by reference to Exhibit 4(a) to the Company's Registration Statement on Form S-8 filed with the Commission on December 31, 1997 (file no. 333-8162))
(b) TLC Share Purchase Plan (incorporated by reference to Exhibit 4(b) to the Company's Registration Statement on Form S-8 filed with the Commission on December 31, 1997 (file no. 333-8162)).
(c) 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).
(d) 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).
(e) 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).
(f) 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).
(g) Employment Agreement with David Eldridge (incorporated by reference to Exhibit 10.1(k) to the Company's 10-K filed with the Commission on August 29, 2000).
(h) Employment Agreement with William Leonard (incorporated by reference to Exhibit 10.1(l) to the Company's 10-K filed with the Commission on August 29, 2000).
(i) Employment Agreement with Thomas O'Hare (incorporated by reference to Exhibit 10.1(m) to the Company's 10-K filed with the Commission on August 29, 2000).

21.1 List of Registrant's Subsidiaries
23.1 Consent of Auditors

SIGNATURES

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

TLC LASER EYE CENTERS INC.

By: /s/ Elias Vamvakas
Elias Vamvakas
Chief Executive Officer
August 28, 2001

Pursuant to the requirement 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 dates indicated.

SIGNATURE	TITLE	DATE
/s/ Elias Vamvakas Elias Vamvakas	Chief Executive Officer and Chairman of the Board of Directors	August 28, 2001
/s/Brian Parks Brian Parks	Controller (Principal Financial and Accounting Officer)	August 28, 2001
/s/ Jeffery J. Machat Dr. Jeffery J. Machat	Co-National Medical Director and Director	August 28, 2001
/s/ John F. Riegert John F. Riegert	Director	August 28, 2001
/s/ Howard J. Gourwitz Howard J. Gourwitz	Director	August 28, 2001
/s/ Thomas N. Davidson Thomas N. Davidson	Director	August 28, 2001
/s/ Warren S. Rustand Warren S. Rustand	Director	August 28, 2001
/s/ Dr. William David Sullins, Jr. Dr. William David Sullins, Jr.	Director	August 28, 2001

TLC Laser Eye Centers Inc.
Form 10-K – Exhibit 21.1
List of TLC Subsidiaries
As at June 1, 2001

Name of Entity	*State of Formation*
20/20 Laser Centers, Inc.	DE
Aspen HealthCare Inc.	CO
eyeVantage.com, Inc.	DE
Laser Eye Care of California, LLC	DE
Marketing Success, Inc.	NV
Ontario Laser Center, LLC	CA
The Vision Source, Inc.	TX
TLC Capital Corporation	DE
TLC Charlotte Leasing Company, LLC	NC
TLC Continuing Education Foundation	OK
TLC Indiana Leasing Co. LLC	IN
TLC Laser Eye Centers (ATAC) LLC	DE
TLC Laser Center of Detroit L.L.C.	MI
TLC Laser Eye Centers (Hungary) Ltd.	Hungary[1]
TLC Laser Center of Kalamazoo L.L.C.	MI
TLC Laser Center of Lansing L.L.C.	MI
TLC Laser Eye Centers (Piedmont/Atlanta) LLC	SC
TLC Laser Eye Centers (Refractive I) Inc.	DE
TLC Laser Eye Care of Torrance, LLC	DE
TLC Managed Care Inc.	DE
TLC Management Services Inc.	DE
TLC Michigan LLC	MI
TLC Midwest Eye Laser Center, Inc.	IL
TLC Network Services Inc.	DE
TLC Northwest Eye, Inc.	WA
TLC Oklahoma Doctors L.L.C.	OK
TLC The Laser Center (Annapolis) Inc.	MD
TLC The Laser Center (Baltimore) Inc.	MD
TLC The Laser Center (Baltimore Management) LLC	MD
TLC, The Laser Center (Brooklyn) Inc.	NY
TLC The Laser Center (Carolina) Inc.	NC
TLC The Laser Center (Connecticut) L.L.C.	CT
TLC The Laser Center (Delaware) Inc.	DE
TLC The Laser Center (Green Bay/Milwaukee) LLC	WI
TLC The Laser Center (Indiana) Inc.	IN
TLC The Laser Eye Center (Indiana) LLC	IN
TLC The Laser Center (Institute) Inc.	DE
TLC The Laser Center (Moncton) Inc.	ON

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[1] TLC Laser Eye Centers (Hungary) Ltd. is a special purpose subsidiary used by the Company for financial planning purposes.

TLC The Laser Center (Northeast) Inc.	MD
TLC The Laser Center (Northwest) Inc.	WA
TLC The Laser Center (Pittsburgh) LLC	PA
TLC The Laser Center (Rocky Mountain) Inc.	CO
TLC The Laser Center (Boca Raton) Limited Partnership	FL
TLC The Laser Center (Tri-Cities) Inc.	TN
TLC The London Laser Center Inc.	ON
TLC USA LLC	DE
TLC Winston-Salem Leasing Company, LLC	NC
Pure Laser Hair Removal & Treatment Clinics Inc.	IL
Pure Laser Hair Removal & Treatment Clinic (Canada) Inc.	ON
Vision Corporation	ON

TLC Laser Eye Centers Inc.
Form 10-K – Exhibit 23.1
Consent of Auditors

Consent of Independent Chartered Accountants

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No.333-8162) and Form S-8 (No. 333-55480) of TLC Laser Eye Centers Inc. of our report dated July 6, 2001 (except as to Note 20 which is as at August 27, 2001), on the Consolidated Financial Statements of TLC Laser Eye Centers Inc. as at May 31, 2001 and 2000 and for each of the years in the three (3) year period ended May 31, 2001 prepared in accordance with accounting principles generally accepted in the United States included in the 2001 Annual Report (Form 10-K) of TLC Laser Eye Centers Inc.

Toronto, Canada
August 28, 2001

/s/ Ernst & Young LLP
Chartered Accountants

Corporate & Shareholder Information

Corporate Information

Directors

Elias Vamvakas (1993)
Chief Executive Officer and
Chairman of the Board of Directors
TLC Laser Eye Centers Inc.

Dr. Jeffery J. Machat (1993)
Co-National Medical Director
TLC Laser Eye Centers Inc.

Howard J. Gourwitz (1995) (1)(2)(3)
Attorney and Counselor-at-Law,
Shareholder
Gourwitz and Barr, P.C.

Dr. W. David Sullins Jr., (1995) (1)(2)(3)
President and Chief of Clinical Services
Athens Eye Care Clinic, P.C.

John F. Riegert (1995)
Retired Secretary
TLC Laser Eye Centers Inc.

Mr. Thomas N. Davidson (2000) (2)
Chairman
Quarry Hill Group

Warren S. Rustand (1997) (1)(2)(3)
Managing General Partner
Harlingwood Capital Partners

(199X) Year appointed director
(1) Member Compensation Committee
(2) Member Corporate Governance Committee
(3) Member Audit Committee

The Board of Directors of TLC believes that strong corporate governance practices are essential to the well-being of the Corporation and its shareholders. A description of TLC's corporate governance policies is available from the Company at no charge. Requests should be directed to Stephen Kilmer, Director of Corporate Communications, at the Company's corporate office.

Officers and Executives

Elias Vamvakas
Chief Executive Officer

Thomas G. O'Hare
President and Chief Operating Officer

David C. Ang
Assistant Treasurer

Dr. David C. Eldridge
Executive Vice President
Clinical Affairs

Lloyd D. Fiorini
General Counsel & Corporate Secretary

Paul Frederick
Executive Vice President
Human Resources

William P. Leonard
Executive Vice President, Operations

Henry Lynn
Executive Vice President
Information Systems

Brian Park
Interim Chief Financial Officer

Jay Peters
Executive Vice President
Chief Marketing Officer

Madeline D. Walker
Executive Vice President

Corporate Office

TLC Laser Eye Centers Inc.
5280 Solar Drive,
Suite 300,
Mississauga, Ontario
L4W 5M8
Tel: (905) 602-2020
Fax: (905) 602-2025

Legal Counsel

Canada
Torys
Toronto, Ontario

U.S.
Arent Fox Kinter
Plotkin & Kahn
Washington, D.C.

Independent Auditors

Ernst & Young LLP
Toronto, Ontario

Shareholder Information

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
Tel: 1-800-387-0825

Investor Relations

Shareholders, analysts, investment professionals, members of the media, and potential investors who would like information about TLC's activities should contact:

Stephen Kilmer
Director of Corporate Communications
Tel: 1-800-TLC-1033 or
Tel: (905) 602-2020
Fax: (905) 602-2025
Email: investor.relations@tlcvision.com

Stock Exchange Listing

Shares of the Corporation are listed on The Toronto Stock Exchange and NASDAQ National Market

Trading Symbols

TSE – TLC, common stock
NASDAQ – TLCV, common stock
CBOE – QKR, options on common stock

Reporting Calendar

The year-end is May 31. The annual report is mailed in September, and quarterly reports are mailed in October, January, and April.

Form 10-K

Additional copies of the Company's Annual Report on Form 10-K (without exhibits) is available from the Company at no charge. Requests should be directed to Stephen Kilmer, Director of Corporate Communications at the Company's corporate office.

TLC on the Internet

Interested investors may browse TLC's website at http://www.tlcvision.com to obtain regularly updated information including press releases, share trading data, quarterly reports and financial statements.

We believe not everyone is a

CANDIDATE

for LASIK surgery We are as selective with our patients as we are with our doctors. When the goal is an outstanding outcome for every patient, being discriminating is **the right thing to do**.

TLC
LASER EYE CENTERS