

IN THE MATTER OF
THE SECURITIES LEGISLATION
OF BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, MANITOBA,
ONTARIO, QUEBEC, NOVA SCOTIA, PRINCE EDWARD ISLAND,
NEWFOUNDLAND, NEW BRUNSWICK, NORTHWEST TERRITORIES,
AND YUKON

AND

IN THE MATTER OF
THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF SHOPPERS ACQUISITION CORPORATION

MRRS DECISION DOCUMENT

1. WHEREAS the local securities regulatory authority or regulator (the "Decision Maker") in each of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia, Prince Edward Island, Newfoundland, New Brunswick, Northwest Territories, and Yukon (the "Jurisdictions") has received an application from Shoppers Acquisition Corporation ("SAC") for a decision under the securities legislation of the Jurisdictions (the "Legislation") that the requirements contained in the Legislation to be registered to trade in a security and to file and receive a receipt for a prospectus (the "Registration and Prospectus Requirements") do not apply to SAC with respect to a proposed distribution of non-voting common shares by it and that the requirement contained in the Legislation to comply with the rules governing issuer bids (the "Issuer Bid Requirement") does not apply to SAC with respect to certain repurchases by SAC of non-voting common shares issued by it pursuant to the distribution;

2. AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the "System"), the Alberta Securities Commission is the principal regulator for this application;

3. AND WHEREAS SAC has represented to the Decision Makers that:

3.1 SAC is a corporation incorporated under the laws of the Province of Ontario;

3.2 SAC is not a reporting issuer, or its equivalent, in any of the Jurisdictions;

3.3 the authorized capital of SAC consists of an unlimited number of common shares ("Common Shares"). In order to accommodate the distribution described below, SAC proposes to amend its authorized capital to also allow for the issuance of an unlimited number of non-voting common shares ("Non-Voting Shares");

3.4 the securities of SAC are not listed on any stock exchange or traded over the counter;

3.5 SAC was incorporated for the purpose of acquiring the Shoppers Drug Mart/Pharaprix business currently owned and operated by Shoppers Drug Mart Limited ("Current SDM");

3.6 Current SDM is a wholly-owned subsidiary of Imasco Limited ("Imasco"). The common shares of Imasco are listed and posted for trading on The Toronto Stock Exchange and Imasco is a reporting issuer, or its equivalent, in each of the Jurisdictions;

3.7 as at August 3, 1999, British American Tobacco p.l.c. ("BAT") owned 42% of the issued and outstanding common shares of Imasco. BAT, through its wholly-owned subsidiary British American Tobacco (Canada) Limited ("BAT Canada"), proposes to acquire, for cash, the balance of the issued and outstanding common shares of Imasco as part of a larger transaction involving BAT, BAT Canada and Imasco (the "BAT/Imasco Transaction");

3.8 pursuant to the BAT/Imasco Transaction, the assets and liabilities comprising the Shoppers Drug Mart/Pharaprix business currently owned and operated by Current SDM would be transferred to Shoppers Drug Mart Inc. ("New SDM"), a newly formed corporation, or to a wholly-owned subsidiary of New SDM. Following such transfer, Current SDM would own all of the issued and outstanding shares of New SDM;

3.9 completion of the BAT/Imasco Transaction would involve the amalgamation of Current SDM with Imasco, followed by a further amalgamation between the newly amalgamated entity and BAT Canada. As a result, following completion of the BAT/Imasco Transaction, BAT Canada would own all of the issued and outstanding shares of New SDM;

3.10 completion of the BAT/Imasco Transaction is conditional on, among other things, the shareholders of Imasco giving their approval to the transaction at a meeting scheduled for January 28, 2000;

3.11 pursuant to a letter agreement dated November 18, 1999, BAT and SAC have agreed that, upon completion of the BAT/Imasco Transaction, BAT Canada and SAC will enter into a purchase agreement whereby SAC will agree to purchase all of the issued and outstanding shares of New SDM from BAT Canada for \$2.55 billion in cash;

3.12 the Shoppers Drug Mart/Pharaprix business to be transferred to New SDM as part of the BAT/Imasco Transaction includes retail operations consisting of over 790 drug stores. Each drug store is operated by a pharmacist (an "Associate") who, through a wholly-owned corporation, has entered into a licensing agreement

with Current SDM. Each such licensing agreement requires that the Associate devote their full time and attention to the operation and management of the drug store that is the subject of the license. As a result, each Associate has detailed knowledge of the business currently operated by Current SDM and to be transferred to New SDM as part of the BAT/Imasco Transaction;

3.13the Associates and New SDM will continue to be subject to the licensing agreements following the transfer of the Shoppers Drug Mart/Pharaprix business to New SDM as part of the BAT/Imasco Transaction. SAC does not intend to alter the current licensing arrangement in the event that it acquires New SDM. As a result, the Associates will render the same services to New SDM and SAC as they currently render to Current SDM;

3.14SAC intends to fund the purchase of New SDM by raising approximately \$900 million in equity and obtaining debt financing for the balance of the purchase price. SAC proposes to allow Associates to become equity investors in SAC by purchasing Non-Voting Shares with a total aggregate purchase price of up to \$40 million. The balance of the required \$900 million equity investment will be provided through the sale of Common Shares to certain institutional investors and to certain management employees of Current SDM;

3.15SAC also proposes to allow Associates to purchase Non-Voting Shares through a Registered Retirement Savings Plan ("RRSP") of which they are the beneficiary. The Common Shares do not currently qualify as an RRSP eligible investment under the *Income Tax Act* (Canada), resulting in the need for the creation of a separate class of securities to allow RRSP investment by Associates. The Non-Voting Shares will be an RRSP eligible investment under the *Income Tax Act* (Canada);

3.16Associates who purchase Non-Voting Shares, either directly or through an RRSP of which they are the beneficiary, will be required to enter into a unanimous shareholders' agreement and certain other agreements (the "Governing Agreements") which will restrict their ability to deal with the Non-Voting Shares so acquired. Among other things, the Governing Agreements will place certain transfer restrictions on the Non-Voting Shares, will provide SAC with a right of first refusal in certain circumstances and will give SAC the right to repurchase the Non-Voting Shares from the Associate in certain circumstances, including in the event that the licensing agreement respecting the Associate is terminated. The Governing Agreements will also provide drag-along rights to certain institutional holders of Common Shares and will provide certain coattail and tag-along rights to the holders of Non-Voting Shares;

3.17Associates will be provided with an offering memorandum in connection with the offering of Non-Voting Shares. The offering memorandum will contain, among other things, a full description of the attributes of the Non-Voting Shares and the business to be conducted by SAC and New SDM. The offering

memorandum will also contain a summary of the provisions of the Governing Agreements and will provide full information concerning any resale restrictions applicable to the Non-Voting Shares. The offering memorandum will be prepared in accordance with the Legislation and will contain the contractual and statutory rights of action required by the Legislation;

3.18 the participation of Associates in the offering of Non-Voting Shares will be voluntary. No Associate will be induced, directly or indirectly, to purchase Non-Voting Shares by expectation of maintaining or continuing their status as an Associate;

3.19 there are Associates resident in each of the Jurisdictions;

3.20 SAC will not accept any subscription for Non-Voting Shares by an Associate unless the BAT/Imasco Transaction is successfully completed and SAC acquires New SDM;

3.21 as Associates will not be employees of either SAC or New SDM, no exemption from the Registration and Prospectus Requirements exists under the Legislation, other than in Ontario, to allow SAC to issue Non-Voting Shares to Associates;

3.22 any repurchase by SAC of Non-Voting Shares pursuant to the terms of the Governing Agreements will constitute an issuer bid under the Legislation. No exemption from the Issuer Bid Requirement exists under the Legislation with respect to such repurchases;

4. AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the "Decision");

5. AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

6. THE DECISION of the Decision Makers under the Legislation is that:

6.1 the Prospectus and Registration Requirements shall not apply to the intended distribution by SAC of Non-Voting Shares to Associates or to RRSPs of which an Associate is the beneficiary, provided that the first trade of any Non-Voting Share so acquired shall be a distribution, or its equivalent, in each Jurisdiction where such a concept applies; and

6.2 the Issuer Bid Requirement shall not apply to any repurchase of Non-Voting Shares from Associates or RRSPs of which an Associate is the beneficiary by SAC pursuant to the terms of the Governing Agreements, provided that at the time of any repurchase there is no published market for the Non-Voting Shares.

DATED at Edmonton, Alberta this 14th day of January, 2000.

"Eric T. Spink", Vice-Chair "Ian E.W. McConnan", F.C.A., Member

Headnote

Mutual Reliance Review System for Exemptive Relief Applications - Relief from the registration and prospectus requirements with respect to a proposed offering of securities to independent contractors and relief from the issuer bid requirements with respect to the repurchase of securities pursuant to certain agreements entered into concurrently with the offering.

Applicable Alberta Statutory Provisions

Securities Act, S.A., 1981, c.S-6.1, as amended, s.54, s.81, ss.116(1), s. 135 to 137.2, s.140, ss.144(2)(c)