ANNUAL **REPORT** | 2013

Reitmans

(CANADA) LIMITED

REITMANS IS CANADA'S LEADING SPECIALTY RETAILER. WE ARE CUSTOMER DRIVEN, VALUE ORIENTED AND COMMITTED TO EXCELLENCE. BY PROMOTING INNOVATION, GROWTH, DEVELOPMENT AND TEAMWORK, WE STRIVE TO SERVE OUR CUSTOMERS THE BEST QUALITY/VALUE PROPOSITION IN THE MARKETPLACE.

TO OUR **SHAREHOLDERS**

Fiscal 2013 was a most challenging and difficult year.

In June 2012, the Company installed a new warehouse management system. Complications associated with the system resulted in a serious disruption in the flow of inventory to stores in the third quarter of fiscal 2013, resulting in significant declines in sales, gross margin and earnings before income taxes.

Sales for fiscal 2013 (53 weeks) decreased 1.9% to $1,000,513,000 as compared with $1,019,397,000 for the year ended January 28, 2012 (52 weeks). This decrease in sales is due primarily to a net reduction of 31 stores in fiscal 2013 and lower store traffic in a challenging retail environment. The Company's gross margin for fiscal 2013 decreased to 62.8% from 64.4% for fiscal 2012. Net earnings for fiscal 2013 decreased 44.0% to $26,619,000 ($0.41 diluted earnings per share) as compared with $47,539,000 ($0.72 diluted earnings per share) for fiscal 2012. For fiscal 2013, adjusted EBITDA decreased by $35,837,000 or 28.3% to $90,951,000 as compared with $126,788,000 for fiscal 2012.

During the year, the Company opened 54 new stores, closed 85 and remodelled 54 stores at a capital cost of $74,000,000. Accordingly, at February 2, 2013, there were 911 stores in operation, consisting of 361 Reitmans, 146 Smart Set, 73 RW&CO., 72 Thyme Maternity, 153 Penningtons and 106 Addition Elle, as compared with a total of 942 stores as at January 28, 2012. In addition, there were 20 Thyme Maternity boutiques ("shop-in-shop") in select Babies"R"Us locations in Canada and 154 boutiques in select Babies"R"Us stores in the United States. In fiscal 2014, we expect to open 30 new stores, close 25 stores and remodel 31 stores at a capital cost of $34,000,000.

Management is disappointed with the results for fiscal 2013 and has taken action in the merchandising and marketing activities of each of its banners to improve sales and profitability. Additionally, the Company has undertaken an initiative to improve efficiencies and reduce overhead across head office and field functions. The Company has addressed the issues related to the warehouse management system and continues to improve the flow of goods to the stores and optimize system performance.

We continue to upgrade our technology platform and distribution centre and to invest in our people with skills development and management training programs. Our cash resources and infrastructure allow us to seek out new business opportunities through acquisition and development.

At the Board of Directors meeting held on April 4, 2013, a quarterly cash dividend (constituting eligible dividends) of $0.20 per share on all outstanding Class A non-voting and Common shares of the Company was declared payable April 25, 2013 to shareholders of record April 12, 2013. With regard to dividend policy, the Board of Directors considered the Company's earnings per share, cash flow from operations, the level of planned capital expenditures and its cash and marketable securities. The Board of Directors decided to maintain its quarterly dividend on the basis of a targeted payout ratio of approximately 50% to 80% of sustainable earnings per share, 50% to 75% of cash flow from operations and the ability to augment the dividend from the approximately $170,000,000 of liquidity on the Company's balance sheet, if these targets are missed in a given year. The Board of Directors will review these guidelines again at the end of its current fiscal year.

The Company continues to execute its strategy of delivering fashionable clothing at excellent prices to Canadian consumers. We are proud of our achievements over the past 87 years and most confident of our future. We believe that we have the very best specialty retailing assets in Canada. Our operations are led and staffed by highly motivated, extremely competent professionals. I extend sincere thanks and appreciation to all our associates, suppliers, customers and shareholders. These are the people who have made possible our many years of success and on whom we rely for the continued growth of the Company.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman
Chairman and Chief Executive Officer

Montreal, April 4, 2013

SALES	**$1,000,513,000**	- 1.9%
ADJUSTED EBITDA[1]	**$90,951,000**	- 28.3%
PRE-TAX EARNINGS	**$35,136,000**	- 46.7%
NET EARNINGS	**$26,619,000**	- 44.0%
EARNINGS PER SHARE[2]	**$0.41**	- 43.1%
CASH AND INVESTMENTS	**$169,256,000**	- 36.9%
STORES	**911**	- 3.3%

[1] These highlights include a reference to adjusted EBITDA, a non-GAAP financial measure. Adjusted EBITDA is defined as earnings before income taxes, dividend income, interest income, realized gains or losses on disposal of available-for-sale financial assets, impairment losses on available-for-sale financial assets, interest expense, depreciation, amortization and net impairment losses related to property and equipment. The Company believes this measure provides meaningful information on the Company's performance and operating results. However, readers should know that such a non-GAAP financial measure has no standardized meaning as prescribed by IFRS and may not be comparable to similar measures presented by other companies. Accordingly, it should not be considered in isolation.

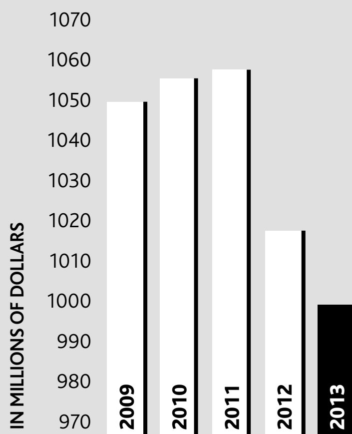
[2] Earnings per share on a fully diluted basis.

5-YEAR **HIGHLIGHTS**

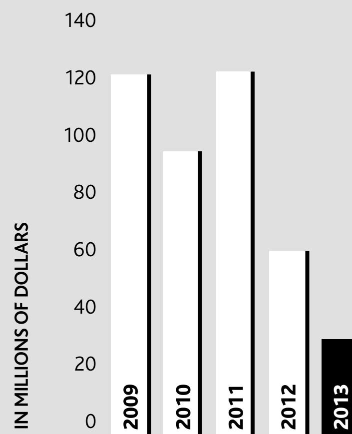
FOR THE YEARS ENDED:
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	2013[1]	2012[1]	2011[1]	2010[1]	2009[1]
SALES					
1st Quarter	**$ 217,094**	$ 219,296	$ 235,745	$ 231,652	$ 228,318
2nd Quarter	**279,513**	286,075	292,026	286,071	289,502
3rd Quarter	**236,247**	254,072	262,515	270,684	271,240
4th Quarter	**267,659**	259,954	268,714	268,120	261,801
Total	**$ 1,000,513**	$ 1,019,397	$ 1,059,000	$ 1,056,527	$ 1,050,861
RESULTS FROM OPERATING ACTIVITIES					
1st Quarter	**$ (110)**	$ 5,018	$ 22,825	$ 10,814	$ 25,372
2nd Quarter	**34,466**	40,968	53,612	38,100	49,165
3rd Quarter	**(893)**	10,609	27,819	27,076	33,358
4th Quarter	**(2,621)**	5,224	19,886	21,879	14,852
Total	**$ 30,842**	$ 61,819	$ 124,142	$ 97,869	$ 122,747
NET EARNINGS (LOSS)					
1st Quarter	**$ (53)**	$ 624	$ 15,770	$ 7,801	$ 18,436
2nd Quarter	**27,714**	31,680	38,706	26,426	35,385
3rd Quarter	**38**	10,561	20,692	18,921	23,004
4th Quarter	**(1,080)**	4,674	13,817	14,088	8,981
Total	**$ 26,619**	$ 47,539	$ 88,985	$ 67,236	$ 85,806
BASIC EARNINGS (LOSS) PER SHARE					
1st Quarter	**$ 0.00**	$ 0.01	$ 0.23	$ 0.11	$ 0.26
2nd Quarter	**0.42**	0.48	0.58	0.38	0.50
3rd Quarter	**0.00**	0.16	0.31	0.28	0.33
4th Quarter	**(0.01)**	0.07	0.21	0.21	0.13
Total	**$ 0.41**	$ 0.72	$ 1.33	$ 0.98	$ 1.21
NET EARNINGS	**$ 26,619**	$ 47,539	$ 88,985	$ 67,236	$ 85,806
BASIC EARNINGS PER SHARE	**$ 0.41**	$ 0.72	$ 1.33	$ 0.98	$ 1.21
SHAREHOLDERS' EQUITY	**$ 455,018**	$ 492,852	$ 512,800	$ 510,166	$ 522,539
PER SHARE	**$ 7.05**	$ 7.51	$ 7.73	$ 7.55	$ 7.43
NUMBER OF STORES	**911**	942	968	977	973
DIVIDENDS PAID	**$ 52,068**	$ 52,654	$ 51,895	$ 49,351	$ 50,885
STOCK PRICE AT YEAR-END					
CLASS A NON-VOTING	**$ 12.39**	$ 14.64	$ 17.81	$ 16.14	$ 10.68
COMMON	**$ 11.85**	$ 14.98	$ 18.18	$ 15.00	$ 8.75

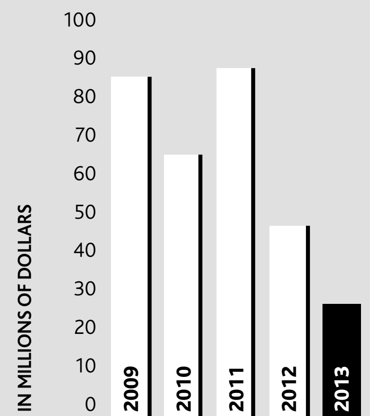
[1] The years ended 2013, 2012 and 2011 are reported under International Financial Reporting Standards ("IFRS"). All other years ended are presented in accordance with previous Canadian generally accepted accounting principles and have not been restated to IFRS.



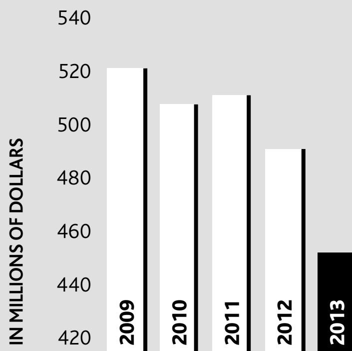
SALES[1]



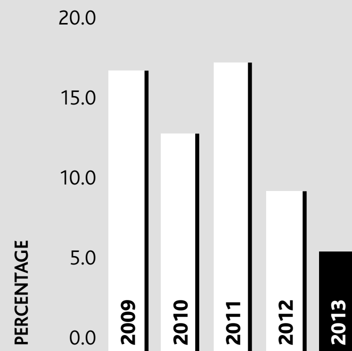
RESULTS FROM OPERATING ACTIVITIES[1]



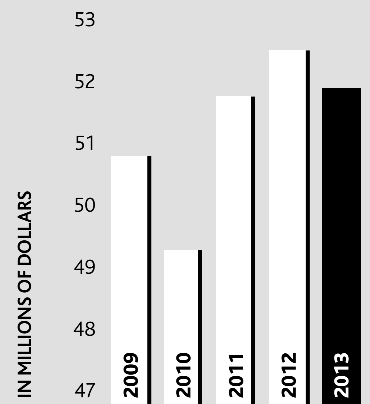
NET EARNINGS[1]



SHAREHOLDERS' EQUITY[1]



RETURN ON EQUITY[1]



DIVIDENDS

[1] The years ended 2013, 2012 and 2011 are reported under International Financial Reporting Standards ("IFRS"). All other years ended are presented in accordance with previous Canadian generally accepted accounting principles and have not been restated to IFRS.

STORES
ACROSS CANADA

	REITMANS	SMART SET	RW & CO.	THYME	PENNINGTONS	ADDITION ELLE	
NEWFOUNDLAND	14	3	1	-	4	2	24
PRINCE EDWARD ISLAND	2	3	-	-	1	-	6
NOVA SCOTIA	19	5	1	2	8	2	37
NEW BRUNSWICK	14	4	3	1	4	4	30
QUÉBEC	84	41	16	21	28	30	220
ONTARIO	117	52	28	26	56	38	317
MANITOBA	13	5	2	2	6	3	31
SASKATCHEWAN	12	3	2	2	6	3	28
ALBERTA	45	15	10	10	21	17	118
BRITISH COLUMBIA	39	15	10	8	19	7	98
NORTHWEST TERRITORIES	1	-	-	-	-	-	1
YUKON	1	-	-	-	-	-	1
TOTAL	361	146	73	72	153	106	911 STORES

REITMANS

Operating **361 STORES** averaging 4,600 sq. ft., Reitmans understands and fulfills the need of every woman of every shape to look and feel beautiful. Canada's largest women's apparel specialty chain and leading fashion brand, Reitmans has developed strong customer loyalty through superior service, insightful marketing and quality merchandise. Reitmans' fashions can also be purchased online at reitmans.com.

SMART SET

With **146 STORES**, averaging 3,400 sq. ft., Smart Set is a style destination where young women come together to inspire and be inspired. From wear-to-work separates, denim, essentials and accessories, we offer the latest styles in women's fashions to mix, match and innovate.

RW & CO.

RW & CO. is an aspirational lifestyle brand, which is passionate about Fashion catering to a customer with an urban mindset. Offering fashions for Him and Her that blend the latest trends with style, quality and with a unique attention to detail. RW & CO. operates **73 STORES** averaging 4,500 sq. ft. in premium locations in major shopping malls.

THYME MATERNITY

Thyme Maternity, Canada's leading fashion brand for moms-to-be, offers current styles for every aspect of life, from casual to work, plus a complete line of nursing fashions and accessories. Thyme's unique "full of life experience" delivers future moms valuable advice, fashion tips and product knowledge to help them on the incredible journey during and after pregnancy. Thyme operates **72 STORES** averaging 2,300 sq. ft. in major malls and power centres nationwide, as well as 20 Thyme shop-in-shops in select Babies"R"Us locations in Canada and 154 in Babies"R"Us locations in the United States.

PENNINGTONS

Canadian leader of the plus size market, Penningtons offers trend-right styles and affordable quality while creating a unique inspiring shopping experience for our customers. The plus size fashion destination for sizes 14–32, Penningtons operates **153 STORES** across Canada averaging 6,000 sq. ft. and an e-commerce site at penningtons.com. From head-to-toe, our customers will find the best fitted clothing such as intimate apparel, basic to fashion denim, work to weekend outfits, footwear and activewear.

ADDITION ELLE

Addition Elle is Canada's leading fashion destination for plus size women. Addition Elle's vision of offering "Fashion Democracy" delivers the latest "must-have" trends to updated fashion essentials in an inspiring shopping environment. From casual daywear to amazing dresses, contemporary career, sexy intimates, accessories, footwear, high performance activewear and the largest assortment of premium denim labels – it's all here. Addition Elle's fashion for plus size women comprises a phenomenal range of fashions for all – always with a focus on fashion, quality and fit. Addition Elle operates **106 STORES** averaging 6,000 sq. ft. in major malls and power centres nationwide and an e-commerce site at additionelle.com.

MANAGEMENT'S DISCUSSION **AND ANALYSIS**

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE FISCAL YEAR ENDED FEBRUARY 2, 2013

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the audited consolidated financial statements of Reitmans as at and for the fiscal years ended February 2, 2013 and January 28, 2012 and the notes thereto which are available at www.sedar.com. This MD&A is dated April 4, 2013.

All financial information contained in this MD&A and Reitmans' audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All amounts in this report are in Canadian dollars, unless otherwise noted. The audited consolidated financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on April 4, 2013.

Additional information about Reitmans is available on the Company's website at www.reitmans.ca or on the SEDAR website at www.sedar.com.

FORWARD-LOOKING STATEMENTS

All of the statements contained herein, other than statements of fact that are independently verifiable at the date hereof, are forward-looking statements. Such statements, based as they are on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown, many of which are beyond the Company's control. Such risks include but are not limited to: the impact of general economic conditions, general conditions in the retail industry, seasonality, weather and other risks included in public filings of the Company. Consequently, actual future results may differ materially from the anticipated results expressed in forward-looking statements. The reader should not place undue reliance on the forward-looking statements included herein. These statements speak only as of the date made and the Company is under no obligation and disavows any intention to update or revise such statements as a result of any event, circumstances or otherwise, except to the extent required under applicable securities law.

NON-GAAP FINANCIAL MEASURES

In addition to discussing earnings in accordance with IFRS, this MD&A provides adjusted EBITDA as a supplementary earnings measure, which is defined as earnings (loss) before income taxes, dividend income, interest income, realized gains or losses on disposal of available-for-sale financial assets, impairment losses on available-for-sale financial assets, interest expense, depreciation, amortization and net impairment losses related to property and equipment. The Company also discloses same store sales, which are defined as sales generated by stores that have been open for at least one year. The Company believes these measures provide meaningful information on the Company's performance and operating results. However, readers should know that these non-GAAP financial measures have no standardized meaning as prescribed by IFRS and may not be comparable to similar measures presented by other companies. Accordingly, they should not be considered in isolation.

The following table reconciles earnings (loss) before income taxes to adjusted EBITDA for the twelve and three months ended February 2, 2013 and January 28, 2012:

	For the twelve months ended		For the three months ended	
	February 2, 2013	**January 28, 2012**	**February 2, 2013**	**January 28, 2012**
Earnings (loss) before income taxes	**$ 35,136,000**	$ 65,872,000	**$ (1,449,000)**	$ 6,700,000
Dividend income	**(3,526,000)**	(3,462,000)	**(911,000)**	(864,000)
Interest income	**(1,062,000)**	(1,367,000)	**(203,000)**	(419,000)
Impairment losses on available-for-sale financial assets	**156,000**	73,000	**50,000**	–
Interest expense	**592,000**	682,000	**139,000**	162,000
Depreciation, amortization and net impairment losses	**59,655,000**	64,990,000	**15,514,000**	16,442,000
Adjusted EBITDA	**$ 90,951,000**	$ 126,788,000	**$ 13,140,000**	$ 22,021,000

CORPORATE OVERVIEW

Reitmans is a Canadian ladies' wear specialty apparel retailer. The Company has six banners: Reitmans, Smart Set, RW & CO., Thyme Maternity, Penningtons and Addition Elle. Each banner is focused on a particular niche in the retail marketplace with a distinct marketing program as well as a unique website thereby allowing the Company to continue to enhance its brands and strengthen customer loyalty. The Company has several competitors in each niche, including local, regional and national chains of specialty stores and department stores, as well as foreign-based competitors. The Company's stores are located in malls, retail power centres, strip plazas and on major shopping streets across Canada. The Company continues to enhance all areas of its business by investing in stores, technology and people. The Company continues to offer Canadian consumers affordable fashions and accessories at the best value reflecting price and quality.

The Company offers e-commerce website shopping for the Reitmans banner and its plus-size banners (Penningtons and Addition Elle) and is continuing to develop the infrastructure required to launch e-commerce for the other banners. These online channels offer customers convenience, selection and ease of purchase, while enhancing customer loyalty and continuing to build the brands.

In addition to its individual retail outlets, the Company operates 20 Thyme Maternity boutiques ("shop-in-shop") in select Babies"R"Us locations in Canada and provides access to e-commerce website shopping through the Babies"R"Us Canadian website. In June 2012, the Company announced a partnership with Babies"R"Us to sell Thyme Maternity apparel and accessories in the United States. At April 4, 2013, Thyme Maternity products are available in the U.S. in 154 Babies"R"Us stores and online through the Babies"R"Us U.S. website. These new retail channels offer Thyme Maternity customers an easy and convenient offering along with the opportunity to access Thyme Maternity merchandise via the Internet.

RETAIL BANNERS

	Number of stores at January 28, 2012	Q1 Openings	Q1 Closings	Q2 Openings	Q2 Closings	Q3 Openings	Q3 Closings	Q4 Openings	Q4 Closings	Number of stores at February 2, 2013
Reitmans	362	4	2	1	5	5	4	1	1	361
Smart Set	150	4	1	–	1	–	2	1	5	146
RW & CO.	66	1	1	2	–	4	–	1	–	73
Thyme Maternity [1]	76	1	3	–	–	2	2	–	2	72
Penningtons	152	5	3	5	5	4	3	4	6	153
Addition Elle	116	1	3	3	7	3	2	2	7	106
Cassis	20	–	20	–	–	–	–	–	–	–
Total	**942**	**16**	**33**	**11**	**18**	**18**	**13**	**9**	**21**	**911**

[1] Excludes boutiques in Babies"R"Us shop-in-shop locations

Thyme Maternity shop-in-shop locations:

Babies"R"Us – Canada	10	1	–	7	–	–	–	2	–	20
Babies"R"Us – US	–	–	–	–	–	–	–	154	–	154
Babies"R"Us – Total	**10**	**1**	**–**	**7**	**–**	**–**	**–**	**156**	**–**	**174**

Store closings take place for a variety of reasons as the viability of each store and its location is constantly monitored and assessed for continuing profitability. In most cases when a store is closed, merchandise at that location is sold off in the normal course of business and any unsold merchandise remaining at the closing date is generally transferred to other stores operating under the same banner for sale in the normal course of business.

In June 2012, the Company installed a new warehouse management system. As previously announced on August 15, 2012, complications associated with the system resulted in a disruption in the flow of inventory to stores in the third quarter of the year ended February 2, 2013 ("fiscal 2013"). The disruption resulted in estimated loss of sales and a corresponding decline in gross margin, earnings before income taxes and adjusted EBITDA between $7,000,000 and $15,000,000 in the third quarter of fiscal 2013. There was no significant impact in the fourth quarter of fiscal 2013. The Company has addressed the issues related to the warehouse management system and continues to improve the flow of goods to the stores and optimize system performance.

THREE-YEAR REVIEW OF SELECTED FINANCIAL INFORMATION

		For the fiscal years ended	
	February 2, 2013	**January 28, 2012**	**January 29, 2011**
Sales	**$1,000,513,000**	$ 1,019,397,000	$ 1,059,000,000
Earnings before income taxes	**35,136,000**	65,872,000	127,802,000
Net earnings	**26,619,000**	47,539,000	88,985,000
Earnings per share ("EPS")			
Basic	**0.41**	0.72	1.33
Diluted	**0.41**	0.72	1.32
Total assets	**594,555,000**	648,764,000	679,339,000
Total non-current liabilities	**52,623,000**	51,877,000	55,248,000
Dividends per share	**0.80**	0.80	0.78

The year ended January 28, 2012 ("fiscal 2012") commenced with disappointing sales in the first quarter, primarily due to poor weather and a difficult retail environment marked by increased promotional activity. Economic conditions continued to impact the Company further into fiscal 2012 as consumer confidence levels remained weak.

The first six months of fiscal 2013 were challenging as economic factors continued to contribute to softer sales in a more promotional environment. In the third quarter of fiscal 2013, sales were significantly impacted by a disruption in the flow of inventory to stores as a result of difficulties experienced with the deployment of a new warehouse management system.

The Company's gross margin, and ultimately net earnings, can be significantly impacted by fluctuations in the Canadian dollar in relation to the US dollar. In the year ended January 29, 2011 ("fiscal 2011"), significant improvement in the Canadian dollar vis-à-vis the US dollar resulted in a positive impact to the gross profit of approximately $22,000,000. In fiscal 2012 the Canadian dollar traded in ranges comparable to fiscal 2011, however increased promotional activity offset gains from the stronger Canadian dollar. In fiscal 2013 volatility of the Canadian dollar moderated, but as consumer demand weakened due to economic conditions and higher consumer debt, higher promotional activity resulted. In addition, in fiscal 2012 the Company incurred costs related to the closure of the Cassis banner of approximately $6,000,000 pre-tax while in fiscal 2013 the Company's gross margin was impacted by a disruption in the flow of inventory to stores as described above.

Despite a challenging retail environment over the past three years, the Company's balance sheet continues to remain solid. The Company has continued to maintain a strong position in cash, cash equivalents and marketable securities. Inventories, although trending somewhat higher on a per store basis, continue to be closely managed. The Company has increased its capital expenditures significantly over the past three years for store renovation activity and other capital expenditures. In fiscal 2010, the Company had reduced its capital expenditures and has gradually returned to pre-recession levels. Fiscal 2013 capital expenditures amounted to $84,433,000.

The Company's fiscal year ends on the Saturday closest to the end of January. The fiscal year ended February 2, 2013 includes 53 weeks instead of the normal 52 weeks. The inclusion of an extra week occurs every fifth or sixth fiscal year due to the Company's floating year-end.

STRATEGIC INITIATIVES

The Company continues to position itself for growth and has undertaken a number of strategic initiatives to enhance the brands, improve productivity at all levels through system advances and foster a culture of process improvements.

Some of the ongoing initiatives include:

- The Company has embarked on a rebranding of the Reitmans, Smart Set, Addition Elle and Penningtons banners with an increased focus on fashion and affordability which will continue throughout fiscal 2014.
- The Company continues to expand its offering to Thyme U.S.A. customers through its partnership with Babies"R"Us. This business endeavor offers the Company an opportunity to introduce its merchandise into the U.S. market through its shop-in-shop boutiques.

- Early in fiscal 2014 the Company will launch e-commerce for the Smart Set, RW&CO. and Thyme Maternity banners with fulfillment through the Company's existing distribution centre.
- The Company has partnered with EziBuy Ltd., a New Zealand based retailer, to sell Addition Elle merchandise through the partner's online sales channel. EziBuy Ltd. is a multi-channel retailer offering fashion clothing and home decor in Australia and New Zealand.
- Continuation of a companywide supply chain optimization and retail enterprise initiative, internally branded as "SCORE", focused on deploying best in class retail applications supported by a new and improved technology platform. SCORE will enable new processes that will permit flexibility and adaptability across the merchandising and supply chain operations.
- A corporate initiative aimed at reducing overhead across the organization has been introduced which includes a review of head office activities and processes targeted at improving efficiencies.
- A comprehensive review of the Company's global sourcing strategy and execution has been undertaken with a goal of reducing lead time for bringing products to the market.

OPERATING RESULTS FOR FISCAL 2013 AND COMPARISON TO OPERATING RESULTS FOR FISCAL 2012

Sales for fiscal 2013 decreased 1.9% to $1,000,513,000 as compared with $1,019,397,000 for fiscal 2012. This decrease in sales is due primarily to a net reduction of 31 stores in fiscal 2013 and a same stores sales decrease of 2.0%, partially offset by an additional week of sales. Additionally, the Company experienced lower store traffic in a challenging retail environment and was impacted by a disruption in the planned flow of inventory to stores as described above.

Gross profit was negatively impacted by the disruption in the flow of goods in fiscal 2013. Gross profit for fiscal 2013 decreased 4.2% to $628,378,000 as compared with $656,064,000 for fiscal 2012. The Company's gross margin for fiscal 2013 decreased to 62.8% from 64.4% for fiscal 2012.

Selling and distribution expenses for fiscal 2013 increased $2,798,000 to $550,165,000 as compared with $547,367,000 for fiscal 2012. Increases in direct store supervision, e-commerce expenses and one-time costs associated with the processing and movement of merchandise arising from the disruption of the flow of goods to the stores contributed to the increase, despite a reduction in selling and distribution expenses due to the closure of the Cassis banner in fiscal 2013.

Administrative expenses for fiscal 2013 increased $493,000 to $47,371,000 as compared with $46,878,000 for fiscal 2012. The increase in administrative expenses was mainly due to increased employee expenses for certain head office functions offset by a reduction in the employee performance incentive plan expense for fiscal 2013.

Depreciation and amortization expense, which is included in selling and distribution expenses and administrative expenses, for fiscal 2013 was $59,655,000 compared to $64,990,000 for fiscal 2012. Included in fiscal 2013 was $1,585,000 ($2,806,000 in fiscal 2012) of write-offs for closed and renovated stores and impairment losses related to property and equipment, net of reversals, of $1,528,000 ($6,132,000 in fiscal 2012 primarily related to the closure of the Cassis banner).

Finance income for fiscal 2013 was $5,624,000 as compared to $5,562,000 for fiscal 2012. Dividend income for fiscal 2013 was $3,526,000 comparable with $3,462,000 for fiscal 2012. Interest income decreased for fiscal 2013 to $1,062,000 as compared to $1,367,000 for fiscal 2012, due to significantly lower cash balances held. The Company has recorded income of $1,036,000 for fiscal 2013 (expense of $754,000 in fiscal 2012) to recognize the net change in the fair value of US dollar option contracts.

Finance costs for fiscal 2013 were $1,330,000 as compared to $1,509,000 for fiscal 2012. Included in fiscal 2013 was a foreign exchange loss of $582,000 (gain of $733,000 in fiscal 2012) largely attributable to the impact of the fluctuation of the US dollar vis-à-vis the Canadian dollar on US currency held by the Company. Included in fiscal 2013 was interest on long-term debt of $592,000 compared to $682,000 for fiscal 2012. This decrease is primarily attributable to the continued repayment of the mortgage on the Company's distribution centre. An impairment loss on available-for-sale financial assets of $156,000 is included in fiscal 2013 ($73,000 in fiscal 2012).

In fiscal 2013, earnings before income taxes decreased by $30,736,000 or 46.7% to $35,136,000 as compared with $65,872,000 for fiscal 2012. This reflects operational losses, including start-up expenses, directly relating to the new Thyme Maternity boutiques initiative in the Babies"R"Us stores in the United States of approximately $2,300,000. Adjusted EBITDA decreased by $35,837,000 or 28.3% to $90,951,000 as compared with $126,788,000 for fiscal 2012.

Income tax expense for fiscal 2013 amounted to $8,517,000 for an effective tax rate of 24.2%. A deferred income tax adjustment of $345,000 principally arising from an Ontario tax rate re-enactment contributed to the lower effective tax rate. Excluding the effect of this adjustment the effective tax rate was 25.2%. In fiscal 2012, income tax expense amounted to $18,333,000 for an effective tax rate of 27.8%. The Company's effective tax rates reflect the impact of a reduction in substantively enacted tax rates in various tax jurisdictions in Canada.

Net earnings for fiscal 2013 decreased 44.0% to $26,619,000 ($0.41 diluted earnings per share) as compared with $47,539,000 ($0.72 diluted earnings per share) for fiscal 2012.

The Company imports a majority of its merchandise purchases from foreign vendors, with lead times in some cases extending eight months. In fiscal 2013, these merchandise purchases, payable in US dollars, approximated $231,861,000 US ($55,008,000 US for the three months ended February 2, 2013). The Company considers a variety of strategies designed to manage the cost of its continuing US dollar commitments, including spot rate purchases and foreign exchange option contracts with maturities not exceeding six months. In fiscal 2013, the Company satisfied its US dollar requirements through a combination of spot purchases and foreign exchange option contracts. The Company entered into transactions with its bank whereby it purchased call options and sold put options, both on the US dollar ("USD"). Purchased call options and sold put options expiring on the same date have the same strike price.

Details of the foreign currency option contracts outstanding as at February 2, 2013 are as follows:

	Notional Amount in USD	Derivative Financial Asset	Derivative Financial Liability	Net
Put options sold	$ 30,000,000	$ 548,000	$ –	$ 548,000
Call options purchased	(60,000,000)	–	(266,000)	(266,000)
	$ (30,000,000)	**$ 548,000**	**$ (266,000)**	**$ 282,000**

Details of the foreign currency option contracts outstanding as at January 28, 2012 are as follows:

	Notional Amount in USD	Derivative Financial Asset	Derivative Financial Liability	Net
Put options sold	$ 44,000,000	$ 751,000	$ –	$ 751,000
Call options purchased	(100,000,000)	–	(1,505,000)	(1,505,000)
	$ (56,000,000)	**$ 751,000**	**$ (1,505,000)**	**$ (754,000)**

OPERATING RESULTS FOR THE THREE MONTHS ENDED FEBRUARY 2, 2013 ("FOURTH QUARTER OF FISCAL 2013") AND COMPARISON TO OPERATING RESULTS FOR THE THREE MONTHS ENDED JANUARY 28, 2012 ("FOURTH QUARTER OF FISCAL 2012")

Results for the fourth quarter of fiscal 2013 includes 14 weeks instead of the normal 13 weeks. The inclusion of an extra week occurs every fifth or sixth fiscal year due to the Company's floating year-end.

Sales for the fourth quarter of fiscal 2013 increased 3.0% to $267,659,000 as compared with $259,954,000 for the fourth quarter of fiscal 2012. This increase in sales is due to an additional week of sales partially offset by a reduction in the number of stores and a same store sales decrease of 1.5%. The fourth quarter ended February 2, 2013 sales were impacted by a difficult retail environment.

Gross profit for the fourth quarter of fiscal 2013 increased to $158,327,000 as compared with $156,995,000 for the fourth quarter of fiscal 2012. The Company's gross margin for the fourth quarter of fiscal 2013 decreased to 59.2% from 60.4% for the fourth quarter of fiscal 2012, primarily impacted by a challenging retail environment.

Selling and distribution expenses for the fourth quarter of fiscal 2013 increased 6.5% or $8,976,000 to $147,396,000 as compared with $138,420,000 for the fourth quarter of fiscal 2012. Increases in direct store wages and supervision costs contributed to the increase, despite a reduction in selling and distribution expenses due to the closure of the Cassis banner in fiscal 2013.

Administrative expenses for the fourth quarter of fiscal 2013 increased 1.5% or $201,000 to $13,552,000 as compared with $13,351,000 for the fourth quarter of fiscal 2012. The Company has an employee performance incentive plan that is based on operating performance targets and the related expense is recorded in relation to the attainment of such targets. Administrative expenses reflect a reduction in the employee performance incentive plan expense for the fourth quarter of fiscal 2013 offset by increased employee expenses for certain head office functions.

Depreciation and amortization expense, which is included in selling and distribution expenses and administrative expenses, for the fourth quarter of fiscal 2013 was $15,514,000 compared to $16,442,000 for the fourth quarter of fiscal 2012. Included in the fourth quarter of fiscal 2013 was $533,000 ($1,606,000 in the fourth quarter of fiscal 2012) of write-offs for closed and renovated stores and impairment losses related to property and equipment, net of reversals, of $272,000 ($1,069,000 in the fourth quarter of fiscal 2012 primarily related to the closure of the Cassis banner).

Finance income for the fourth quarter of fiscal 2013 was $1,361,000 as compared to $2,392,000 for the fourth quarter of fiscal 2012. Dividend income for the fourth quarter of fiscal 2013 was $911,000 comparable with $864,000 for the fourth quarter of fiscal 2012. Interest income for the fourth quarter of fiscal 2013 was $203,000 compared to $419,000 for the fourth quarter of fiscal 2012. Finance income included a foreign exchange gain of $69,000 for the fourth quarter of fiscal 2013 ($1,109,000 in the fourth quarter of fiscal 2012) largely attributable to the impact of the fluctuation of the US dollar vis-à-vis the Canadian dollar on US currency held by the Company. The Company recorded income of $178,000 for the fourth quarter of fiscal 2013 (expense of $754,000 in the fourth quarter of fiscal 2012) to recognize the net change in the fair value of a series of US dollar options.

Finance costs for the fourth quarter of fiscal 2013 were $189,000 as compared to $916,000 for the fourth quarter of fiscal 2012. Included in the fourth quarter of fiscal 2013 was interest on long-term debt of $139,000 compared to $162,000 for the fourth quarter of fiscal 2012. This decrease is primarily attributable to the continued repayment of the mortgage on the Company's distribution centre. An impairment loss on available-for-sale financial assets of $50,000 is included in the fourth quarter of fiscal 2013 (nil in the fourth quarter of fiscal 2012). The Company recorded an expense of $754,000 in the fourth quarter of fiscal 2012 to recognize the net change in the fair value of a series of US dollar options.

In the fourth quarter of fiscal 2013, loss before income taxes was $1,449,000 as compared to earnings before income taxes of $6,700,000 for the fourth quarter of fiscal 2012. This loss reflects operational losses, including start-up expenses, directly relating to the new Thyme Maternity boutiques initiative in the Babies"R"Us stores in the United States of approximately $1,700,000. Adjusted EBITDA decreased by $8,881,000 or 40.3% to $13,140,000 as compared with $22,021,000 for the fourth quarter of fiscal 2012.

Income taxes for the fourth quarter of fiscal 2013 amounted to a recovery of $369,000. In the fourth quarter of fiscal 2012 income tax expense amounted to $2,026,000. The Company's effective tax rates reflect the impact of a reduction in substantively enacted tax rates in various tax jurisdictions in Canada.

The Company recorded a net loss for the fourth quarter of fiscal 2013 of $1,080,000 ($0.01 diluted loss per share) as compared with a profit of $4,674,000 ($0.07 diluted earnings per share) for the fourth quarter of fiscal 2012.

SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected consolidated financial data for the eight most recently completed quarters. This unaudited quarterly information has been prepared in accordance with IFRS.

			Earnings (Loss) per Share	
	Sales	Net Earnings (Loss)	Basic	Diluted
February 2, 2013	$ 267,659,000	$ (1,080,000)	$ (0.01)	$ (0.01)
October 27, 2012	236,247,000	38,000	0.00	0.00
July 28, 2012	279,513,000	27,714,000	0.42	0.42
April 28, 2012	217,094,000	(53,000)	0.00	0.00
January 28, 2012	259,954,000	4,674,000	0.07	0.07
October 29, 2011	254,072,000	10,561,000	0.16	0.16
July 30, 2011	286,075,000	31,680,000	0.48	0.48
April 30, 2011	219,296,000	624,000	0.01	0.01

Fluctuations in the above-noted quarterly financial information reflect the underlying operations of the Company as well as the impact of a number of factors including, but not limited to, the effect of the closure of the Cassis banner in the quarter ended January 28, 2012 and the estimated loss in sales due to supply chain disruption in the third quarter of fiscal 2013. Financial results are also affected by seasonality and the timing of holidays. Due to seasonality the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year.

BALANCE SHEET

Cash and cash equivalents as at February 2, 2013 amounted to $97,626,000 as compared to $196,835,000 as at January 28, 2012. The reduction in cash and cash equivalents of $99,209,000 was mainly attributable to reduced cash generated from operations due to lower sales and continued investment in information technology and store renovations in fiscal 2013. Additionally, cash and cash equivalents as at February 2, 2013 have been negatively impacted by approximately $21,000,000 due to the additional week in fiscal 2013. This is principally due to the timing of payments for rent and various sales and withholding taxes. Marketable securities of $71,630,000 at February 2, 2013 remained largely unchanged as compared to $71,442,000 at January 28, 2012.

The Company's trade and other receivables are primarily credit card sales from the last few days of the fiscal quarter. Trade and other receivables as at February 2, 2013 were $3,600,000 or $567,000 higher than as at January 28, 2012. This increase was largely due to higher credit card sales. As at February 2, 2013 income taxes recoverable were $8,709,000 (January 28, 2012 – $4,735,000), attributable to instalments made in excess of estimated tax liabilities. Inventories as at February 2, 2013 were $93,317,000, comparable with $93,188,000 as at January 28, 2012. A reduction in inventory attributable to fewer stores operating in Canada at February 2, 2013 as compared to January 28, 2012 was offset by increased inventory at Thyme Maternity shop-in-shop locations in the U.S. Prepaid expenses, consisting mainly of prepaid rent, insurance, maintenance contracts and realty and business taxes, were $25,944,000 as at February 2, 2013, $14,042,000 higher than at January 28, 2012, principally due to February 2013 rent that was paid and classified as a prepaid item.

The Company invested $84,433,000 in additions to property and equipment and intangible assets in fiscal 2013. This is comprised of $74,391,000 in new store construction and existing store renovation costs and $10,042,000 mainly related to information technology system hardware and software enhancements. The Company is progressing with the SCORE merchandising and supply chain operation initiative involving a significant upgrade to its existing systems. The Company encountered problems during the warehouse management system deployment. However, issues encountered have been resolved and system optimization is advancing for this phase of the project. The remaining technological initiatives, along with warehouse management systems improvements, will support changes and growth across all areas of the Company with improved integration, while enabling the Company to reduce the overall cost of system maintenance and upgrades. The total project, which is being phased in through to completion in fiscal 2015, is estimated to cost approximately $27,000,000. At February 2, 2013, the Company has capitalized approximately $20,000,000 related to the SCORE initiative.

Total trade and other payables were $80,206,000 as at February 2, 2013 (January 28, 2012 – $89,888,000), or $9,682,000 lower than as at January 28, 2012 due mainly to the timing of payments for various sales and withholding taxes. The Company's trade and other payables consist largely of trade payables, personnel liabilities, payables relating to premises and sales tax liabilities.

The Company entered into transactions with its bank whereby it purchased call options and sold put options, both on the US dollar. These option contracts extended over a period of six months. Purchased call options and sold put options expiring on the same date have the same strike price. The Company has recorded a net derivative financial asset, related to foreign exchange option contracts, as at February 2, 2013 of $282,000 as compared to net derivative financial liability of $754,000 as at January 28, 2012.

Deferred revenue consists of unredeemed gift cards, loyalty points and awards granted under customer loyalty programs. Revenue is recognized when the gift cards, loyalty points and awards are redeemed. Deferred revenue was $16,297,000 as at February 2, 2013, or $5,981,000 lower than as at January 28, 2012 due primarily to a high level of redemptions pursuant to the curtailment of the Addition Elle and Penningtons banner loyalty programs in fiscal 2013. The Addition Elle and Penningtons banners reintroduced new programs in fiscal 2013.

Tenant allowances are recorded as deferred lease credits and amortized as a reduction of rent expense over the term of the related leases. As at February 2, 2013 deferred lease credits were $16,805,000 as compared to $17,317,000 as at January 28, 2012.

The Company's long-term debt consists of a mortgage, which is secured by the Company's distribution centre. As at February 2, 2013 the mortgage was $8,573,000 as compared to $10,047,000 as at January 28, 2012. The decrease is attributable to the continued repayment of the mortgage debt.

The Company maintains a contributory defined benefit pension plan ("Plan"). An actuarial valuation for funding purposes was performed as at December 31, 2011 and the next required valuation will be as of December 31, 2012. In fiscal 2013, the Company made contributions of $303,000 to the Plan. The Company also sponsors a Supplemental Executive Retirement Plan ("SERP") for certain senior executives. The SERP is unfunded and when the obligation arises to make any payment called for under the SERP (e.g. when an eligible plan member retires and begins receiving payments under the SERP), the payments reduce the accrual amount as the payments are actually made.

The funded status of the Plan fluctuates with market conditions and impacts funding requirements. The Company will continue to make contributions to the Plan that, as a minimum, meet pension legislative requirements. Adverse changes to the assumptions used, such as the discount rate and expected long-term rate of return on plan assets, could affect the funded status of the Plan and, as such, could have a significant impact on the cash funding requirements of the Plan.

To develop its expected long-term rate of return on Plan assets assumption used in the calculation of total benefit costs applicable to the fair value of Plan assets, the Company considers its past experience and future estimates of long-term investment returns, the expected composition of the Plan's assets as well as the expected long-term market returns in the future.

Pension liability as at February 2, 2013 was $17,390,000, or $2,513,000 higher than as at January 28, 2012. The increase is due to $1,345,000 of pension expense in fiscal 2013 and actuarial losses of $1,471,000, offset by pension contributions paid.

OPERATING RISK MANAGEMENT

ECONOMIC ENVIRONMENT

The Company closely monitors economic conditions in order to react to consumer spending habits and constraints in developing both its short-term and long-term operating decisions. The Company is in a strong financial position with significant liquidity available and ample financial credit resources to draw upon as deemed necessary.

COMPETITIVE ENVIRONMENT

The retail apparel business in Canada is highly competitive with competitors including department stores, specialty apparel chains and independent retailers. There is no effective barrier to entry into the Canadian apparel retailing marketplace by any potential competitor, foreign or domestic, as witnessed by the arrival over the past few years of a number of foreign-based competitors and additional foreign retailers which have announced plans to expand into the Canadian marketplace. Additionally, Canadian women have a significant number of e-commerce shopping alternatives available to them on a global basis. The Company believes that it is well positioned to compete with any competitor. The Company operates multiple banners with product offerings that are diversified as each banner is directed to and focused on a different niche in the Canadian women's apparel market. Our stores, located throughout Canada, offer affordable fashions to consumers.

SEASONALITY

The Company is principally engaged in the sale of women's apparel through 911 leased retail outlets operating under six banners located across Canada and 20 shop-in-shop boutiques located in select Babies"R"Us locations in Canada. In November 2012, Thyme Maternity products became available in the United States in 154 Babies"R"Us stores with additional locations under review. The Company's business is seasonal and is also subject to a number of factors, which directly impact retail sales of apparel over which it has no control, namely fluctuations in weather patterns, swings in consumer confidence and buying habits and the potential of rapid changes in fashion preferences.

DISTRIBUTION AND SUPPLY CHAIN

The Company depends on the efficient operation of its sole distribution centre, such that any significant disruption in the operation thereof (e.g. natural disaster, system failures, destruction or major damage by fire), could materially delay or impair its ability to replenish its stores on a timely basis causing a loss of sales, which could have a significant effect on the Company's results of operations. In June 2012, the Company converted to a new warehouse management system. As previously announced on August 15, 2012, complications associated with the system resulted in a disruption in the flow of inventory to stores in the third quarter of fiscal 2013. The disruption resulted in estimated loss of sales and a corresponding decline in gross margin, income before income taxes and adjusted EBITDA between $7,000,000 and $15,000,000 in the third quarter of fiscal 2013. There was no significant impact in the fourth quarter of fiscal 2013. The Company has addressed the issues related to the warehouse management system and continues to improve the flow of goods to the stores and optimize system performance.

INFORMATION TECHNOLOGY

The Company depends on information systems to manage its operations, including a full range of retail, financial, merchandising and inventory control, planning, forecasting, reporting and distribution systems. The Company regularly invests to upgrade, enhance, maintain and replace these systems. The Company is presently upgrading its merchandising and supply chain operations management systems. In June 2012, the Company converted to a new warehouse management system. The Company has addressed issues previously discussed related to its warehouse management system and continues to improve the flow of goods to the stores and optimize system performance. Any significant disruptions in the performance of distribution or any other systems could have a material adverse impact on the Company's operations and financial results.

GOVERNMENT REGULATION

The Company is structured in a manner that management considers to be most effective to conduct its business across Canada. The Company is therefore subject to all manner of material and adverse changes in government regulation that can take place in any one or more of these jurisdictions as they might impact income and sales, taxation, duties, quota impositions or re-impositions and other legislated or government regulated matters.

MERCHANDISE SOURCING

Virtually all of the Company's merchandise is private label. On an annual basis, the Company directly imports approximately 80% of its merchandise, largely from China. In fiscal 2013, no supplier represented more than 10% of the Company's purchases (in dollars and/or units) and there are a variety of alternative sources (both domestic and offshore) for virtually all of the Company's merchandise. The Company has good relationships with its suppliers and has no reason to believe that it is exposed to any material risk that would operate to prevent the Company from acquiring, distributing and/or selling merchandise on an ongoing basis.

The Company endeavours to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted sourcing and other business practices to address the environmental concerns of its customers. The Company has established guidelines that require compliance with all applicable environmental laws and regulations. Although the Company requires its suppliers to adhere to these guidelines, there is no guarantee that these suppliers will not take actions that hurt the Company's reputation, as they are independent third parties that the Company does not control. However, if there is a lack of apparent compliance, it may lead the Company to search for alternative suppliers. This may have an adverse effect on the Company's financial results, by increasing costs and potentially causing delays in delivery.

FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk are provided below.

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, marketable securities, trade and other receivables and foreign currency option contracts. The Company limits its exposure to credit risk with respect to cash and cash equivalents by investing available cash in short-term deposits with Canadian financial institutions and commercial paper with a rating not less than R1. Marketable securities consist primarily of preferred shares of highly-rated Canadian public companies. The Company's trade and other receivables consist primarily of credit card receivables from the last few days of the fiscal year, which are settled within the first days of the next fiscal year.

As at February 2, 2013, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$	97,626,000
Marketable securities		71,630,000
Trade and other receivables		3,600,000
	$	**172,856,000**

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of trade and other payables is within six months. As at February 2, 2013, the Company had a high degree of liquidity with $169,256,000 in cash and cash equivalents and marketable securities. In addition, the Company has unsecured credit facilities of $125,000,000, subject to annual renewals. The Company has financed its store expansion through internally-generated funds and its unsecured credit facilities are used to finance seasonal working capital requirements for US dollar merchandise purchases. The Company's long-term debt consists of a mortgage bearing interest at 6.40%, due November 2017, which is secured by the Company's distribution centre.

FOREIGN CURRENCY RISK

The Company purchases a significant amount of its merchandise with US dollars and as such significant volatility in the US dollar vis-à-vis the Canadian dollar can have an adverse impact on the Company's gross margin. The Company has a variety of alternatives that it considers to manage its foreign currency exposure on cash flows related to these purchases. This includes, but is not limited to, various styles of foreign currency option or forward contracts, not to exceed six months, and spot rate purchases. A foreign currency option contract represents an option or obligation to buy a foreign currency from a counterparty. Credit risks exist in the event of failure by a counterparty to fulfill its obligations. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian financial institutions. For fiscal 2013, the Company satisfied its US dollar requirements primarily through a combination of spot purchases and foreign exchange option contracts.

The Company has performed a sensitivity analysis on its US dollar denominated financial instruments, which consist principally of cash and cash equivalents of $40,939,000 and trade payables of $19,600,000 to determine how a change in the US dollar exchange rate would impact net earnings. On February 2, 2013, a 1% rise or fall in the Canadian dollar against the US dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $161,000 decrease or increase, respectively, in the Company's net earnings for fiscal 2013.

The Company has performed a sensitivity analysis on its derivative financial instruments, a series of call and put options on US dollars, to determine how a change in the US dollar exchange rate would impact net earnings. On February 2, 2013, a 1% rise or fall in the Canadian dollar against the US dollar, assuming that all other variables had remained the same, would have resulted in a $302,000 decrease or $267,000 increase, respectively, in the Company's net earnings for fiscal 2013.

INTEREST RATE RISK

Interest rate risk exists in relation to the Company's cash and cash equivalents, defined benefit pension plan and SERP. Market fluctuations in interest rates impact the Company's earnings with respect to interest earned on cash and cash equivalents that are invested in bank bearer deposit notes and bank term deposits with major Canadian financial institutions and commercial paper with a rating not less than R1. Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuation may have a material adverse effect on the funded status of the retirement benefit plans and on the Company's results of operations. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $125,000,000 or its US dollar equivalent that it utilizes for documentary and standby letters of credit, and the Company funds the drawings on these facilities as the payments are due.

The Company has performed a sensitivity analysis on interest rate risk at February 2, 2013 to determine how a change in interest rates would impact equity and net earnings. For fiscal 2013, the Company earned interest income of $1,062,000 on its cash and cash equivalents. An increase or decrease of 25 basis points in the average interest rate earned during the year would have increased equity and net earnings by $249,000 or decreased equity and net earnings by $182,000, respectively. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The Company has performed a sensitivity analysis as at February 2, 2013 to determine how a change in interest rates, in relation to the Company's retirement benefit plans, would impact the benefit costs included in other comprehensive income. A one percentage point decrease in the year-end discount rate would have resulted in an increase of approximately $3,674,000 in benefit costs included in other comprehensive income for fiscal 2013, whereas a one percentage point increase would have resulted in a decrease of approximately $3,212,000. The Company's expected long-term rate of return on Plan assets reflects management's view of long-term investment returns. The effect of a 1% variation in such rate of return would have a nominal impact on the total benefit costs included in net earnings and total comprehensive income.

EQUITY PRICE RISK

Equity price risk arises from available-for-sale equity securities. The Company monitors the mix of equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Chief Executive Officer.

The Company has performed a sensitivity analysis on equity price risk at February 2, 2013, to determine how a change in the market price of the Company's marketable securities would impact equity and other comprehensive income. The Company's equity investments consist principally of preferred shares of Canadian public companies. The Company believes that changes in interest rates influence the market price of these securities. A 5% increase or decrease in the market price of the securities at February 2, 2013, would result in a $3,147,000 increase or decrease, respectively, in equity and other comprehensive income for fiscal 2013. The Company's equity securities are subject to market risk and, as a result, the impact on equity and other comprehensive income may ultimately be greater than that indicated above.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Shareholders' equity as at February 2, 2013 amounted to $455,018,000 or $7.05 per share (January 28, 2012 – $492,852,000 or $7.51 per share). The Company continues to be in a strong financial position. The Company's principal sources of liquidity are its cash, cash equivalents and investments in marketable securities of $169,256,000 (January 28, 2012 – $268,277,000). Cash is conservatively invested in short-term deposits with major Canadian financial institutions and commercial paper rated not less than R1. The Company closely monitors its risk with respect to short-term cash investments. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $125,000,000 or its US dollar equivalent. As at February 2, 2013, $46,792,000 (January 28, 2012 – $52,187,000) of the operating lines of credit were committed for documentary and standby letters of credit. These credit facilities are used principally for US dollar letters of credit to satisfy offshore third-party vendors, which require such backing before confirming purchase orders issued by the Company. The Company rarely uses such credit facilities for other purposes.

The Company has granted irrevocable standby letters of credit, issued by highly-rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at February 2, 2013, the maximum potential liability under these guarantees was $5,014,000 (January 28, 2012 – $5,083,000). The standby letters of credit mature at various dates during fiscal 2014. The Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for these items.

The Company is self-insured on a limited basis with respect to certain property risks and also purchases excess insurance coverage from financially stable third-party insurance companies. The Company maintains comprehensive internal security and loss prevention programs aimed at mitigating the financial impact of theft.

The Company continued repayment on its long-term debt, relating to the mortgage on the distribution centre, paying down $1,474,000 in fiscal 2013. The Company paid $0.80 dividends per share totalling $52,068,000 in fiscal 2013 compared to $0.80 dividends per share totalling $52,654,000 in fiscal 2012.

In fiscal 2013, the Company invested $84,433,000 on new and renovated stores and information technology system enhancements. The Company is in the process of a significant upgrade to its merchandising and supply chain operations, which are important to the Company's growth strategy. The technology initiatives, along with warehouse management systems improvements, will support changes and growth across all areas of the Company, with improved integration while enabling the Company to reduce the overall cost of systems maintenance and upgrades. The total project, which is being phased in through to completion in fiscal 2015, is estimated to cost approximately $27,000,000. The Company has invested considerably in its stores and head office systems and has undertaken to reduce capital expenditures significantly in fiscal 2014 without foregoing any opportunities that present themselves. For the fiscal year ending February 1, 2014, the Company expects to invest approximately $44,000,000 in capital expenditures. These expenditures, together with the payment of cash dividends, the repayments related to the Company's bank credit facility and long-term debt obligations and purchases of Class A non-voting shares, under a normal course issuer bid approved in November 2012, are expected to be funded by the Company's existing financial resources and funds derived from its operations.

FINANCIAL COMMITMENTS

The following table sets forth the Company's financial commitments, excluding trade and other payables, as at February 2, 2013, the details of which are described in the previous commentary.

Contractual Obligations	Total	Within 1 year	2 to 4 years	5 years and over
Store & office operating leases[1]	$ 483,196,000	$ 100,972,000	$ 237,429,000	$ 144,795,000
Purchase obligations[2]	81,055,000	80,938,000	117,000	–
Other operating leases[3]	11,556,000	4,590,000	6,965,000	1,000
Long-term debt	8,573,000	1,570,000	5,348,000	1,655,000
Interest on long-term debt	1,394,000	496,000	850,000	48,000
Total contractual obligations	**$ 585,774,000**	**$ 188,566,000**	**$ 250,709,000**	**$ 146,499,000**

[1] Represents the minimum lease payments under long-term leases for store locations and office space as at February 2, 2013.
[2] Includes amounts pertaining to agreements to purchase goods or services that are enforceable and legally binding on the Company.
[3] Includes lease payments for computer equipment, automobiles and office equipment.

As at February 2, 2013, the Company had additional long-term liabilities which included pension liability and deferred income tax liabilities. These long-term liabilities have not been included in the table above as the timing and amount of these future payments are uncertain.

OUTSTANDING SHARE DATA

At April 4, 2013, 13,440,000 Common shares and 51,145,506 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. The Company has 2,370,000 share options outstanding at an average exercise price of $14.52. Each share option entitles the holder to purchase one Class A non-voting share of the Company at an exercise price established based on the market price of the shares at the date the option was granted.

For fiscal 2013, the Company purchased, under the prior year's normal course issuer bid, 1,000,000 Class A non-voting shares having a book value of $663,000 for a total cash consideration of $12,615,000. The excess of the purchase price over book value of the shares in the amount of $11,952,000 was charged to retained earnings.

OFF-BALANCE SHEET ARRANGEMENTS

DERIVATIVE FINANCIAL INSTRUMENTS

The Company in its normal course of business must make long lead time commitments for a significant portion of its merchandise purchases, in some cases as long as eight months. Most of these purchases must be paid for in US dollars. The Company considers a variety of strategies designed to manage the cost of its continuing US dollar long-term commitments, including spot rate purchases and foreign currency option contracts with maturities not exceeding six months. The Company entered into transactions with its bank whereby it purchased call options and sold put options, both on the USD. These option contracts will expire within the next five months. Purchased call options and sold put options expiring on the same date have the same strike price.

Details of the foreign currency option contracts outstanding for each of the periods listed are as follows:

	February 2, 2013			
	Notional Amount in USD	Derivative Financial Asset	Derivative Financial Liability	Net
Put options sold	$ 30,000,000	$ 548,000	$ –	$ 548,000
Call options purchased	(60,000,000)	–	(266,000)	(266,000)
	$ (30,000,000)	**$ 548,000**	**$ (266,000)**	**$ 282,000**

	January 28, 2012			
	Notional Amount in USD	Derivative Financial Asset	Derivative Financial Liability	Net
Put options sold	$ 44,000,000	$ 751,000	$ –	$ 751,000
Call options purchased	(100,000,000)	–	(1,505,000)	(1,505,000)
	$ (56,000,000)	**$ 751,000**	**$ (1,505,000)**	**$ (754,000)**

A foreign currency option contract represents an option or obligation to buy a foreign currency from a counterparty at a predetermined date and amount. Credit risks exist in the event of failure by a counterparty to fulfill its obligations. The Company reduces this risk by dealing only with highly-rated counterparties, normally Canadian chartered banks. The Company does not use derivative financial instruments for speculative purposes.

Included in the determination of the Company's net earnings for fiscal 2013 were net foreign exchange losses of $582,000 (gains of $733,000 for fiscal 2012).

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Only members of the Board of Directors are deemed to be key management personnel. It is the Board of Directors who has the responsibility for planning, directing and controlling the activities of the Company. The Directors participate in the share option plan, as described in note 17 to the audited consolidated financial statements for fiscal 2013.

Compensation expense for key management personnel is as follows:

	For the fiscal years ended	
	February 2, 2013	**January 28, 2012**
Salaries and short-term benefits	**$ 1,944,000**	$ 2,088,000
Post-employment benefits	**(5,000)**	(63,000)
Share-based compensation costs	**595,000**	190,000
	$ 2,534,000	$ 2,215,000

Further information about the remuneration of individual Directors is provided in the annual Management Proxy Circular.

OTHER RELATED-PARTY TRANSACTIONS

The Company leases two retail locations which are owned by companies controlled by the major shareholders of the Company. For fiscal 2013, the rent expense under these leases was, in the aggregate, approximately $195,000 (fiscal 2012 – $198,000).

The Company incurred $670,000 in fiscal 2013 (fiscal 2012 – $584,000) with professional service firms connected to outside directors of the Company for fees in conjunction with general legal advice and other consultation.

These transactions are recorded at the amount of consideration paid as established and agreed to by the related parties.

FINANCIAL INSTRUMENTS

The Company's significant financial instruments consist of cash and cash equivalents along with marketable securities. The Company uses its cash resources to fund ongoing store construction and renovations along with working capital needs. Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The Company reduces its credit risks by investing available cash in bank bearer deposit notes and bank term deposits with major Canadian financial institutions. The Company closely monitors its risk with respect to short-term cash investments. Marketable securities consist primarily of preferred shares of Canadian public companies. The Company's investment portfolio is subject to stock market volatility. The Company is highly liquid with its cash and cash equivalents and invests on a short-term basis in term deposits with major Canadian financial institutions and commercial paper rated not less than R1.

The volatility of the Canadian dollar impacts earnings and while the Company considers a variety of strategies designed to manage the cost of its continuing US dollar commitments, such as spot rate purchases and foreign exchange option contracts, this volatility can result in exposure to risk.

CRITICAL ACCOUNTING ESTIMATES

PENSION PLANS

The Company maintains a contributory, defined benefit plan and sponsors a Supplemental Executive Retirement Plan ("SERP"). The costs of the defined benefit plan and SERP are determined periodically by independent actuaries. Pension expense is included in the results of operations. Assumptions used in developing the net pension expense and projected benefit obligation include a discount rate, rate of increase in salary levels and expected long-term rate of return on plan assets. Based upon the most recently filed actuarial valuation report as at December 31, 2011, the defined benefit plan, despite being fully funded on a going concern basis, had a solvency deficiency. The Company has funded the required amounts as at February 2, 2013. The SERP is an unfunded pay as you go plan.

GIFT CARDS / LOYALTY POINTS AND AWARDS

Gift cards sold are recorded as deferred revenue and revenue is recognized when the gift cards are redeemed. An estimate is made of gift cards not expected to be redeemed based on the terms of the gift cards and historical redemption patterns. Loyalty points and awards granted under customer loyalty programs are recognized as a separate component of revenue and are deferred at the date of initial sale. Revenue is recognized when the loyalty points and awards are redeemed and the Company has fulfilled its obligation. The amount of revenue deferred is measured based on the fair value of loyalty points and awards granted, taking into consideration the estimated redemption percentage.

INVENTORY VALUATION

The Company uses the retail inventory method in arriving at cost. Merchandise inventories are valued at the lower of cost and net realizable value. Excess or slow moving items are identified and a write-down is taken using management's best estimate. In addition, a provision for shrinkage is also recorded using historical rates experienced. Given that inventory and cost of sales are significant components of the consolidated financial statements, any changes in assumptions and estimates could have a material impact on the Company's financial position and results of operations.

ASSET IMPAIRMENT

The Company must assess the possibility that the carrying amounts of tangible and intangible assets may not be recoverable. Management is required to make significant estimates related to future cash flows to determine the amount of asset impairment that should be recognized.

GOODWILL AND INTANGIBLE ASSETS

Goodwill is measured at the acquisition date as the fair value of the consideration transferred less the fair value of the net identifiable assets of the acquired company or business activities. Goodwill is not amortized and is carried at cost less accumulated impairment losses. Intangible assets with indefinite useful lives are measured at cost less accumulated impairment losses. Impairment testing for goodwill and intangible assets with indefinite useful lives is performed at least once per year. Management is required to make significant estimates related to future cash flows to determine the amount of impairment that should be recognized.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new accounting standards, and amendments to standards and interpretations, are not yet effective for fiscal 2013 and have not been applied in preparing the consolidated financial statements. New standards and amendments to standards and interpretations that are currently under review include:

IFRS 9 – FINANCIAL INSTRUMENTS

On November 12, 2009, the IASB issued a new standard, IFRS 9, *Financial Instruments* ("IFRS 9") which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments. The issuance of IFRS 9 is the first phase of the project, which provides guidance on the classification and measurement of financial assets and financial liabilities and was initiated in response to the crisis in financial markets. On December 16, 2011, the IASB deferred the effective date to annual periods beginning on or after January 1, 2015.

IFRS 13 – FAIR VALUE MEASUREMENT

On May 12, 2011, the IASB issued a new standard, IFRS 13, *Fair Value Measurements* ("IFRS 13"), which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted.

IAS 19 – EMPLOYEE BENEFITS

Amendments to IAS 19, *Employee Benefits* include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and the introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013, and early adoption is permitted.

The Company does not expect that the adoption of the new standards will have a material impact on its consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all material information related to the Company is gathered and reported to senior management, including the Chairman and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of February 2, 2013. Based on this evaluation, the CEO and the CFO have concluded that, as of February 2, 2013, the disclosure controls and procedures, as defined by National Instrument 52-109, were appropriately designed and were operating effectively.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

An evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting was conducted as of February 2, 2013. Based on that evaluation, the CEO and the CFO concluded that the internal control over financial reporting, as defined by National Instrument 52-109, was appropriately designed and was operating effectively.

The evaluations were conducted in accordance with the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), a recognized control model, and the requirements of National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings.

There have been no changes in the Company's internal controls over financial reporting during fiscal 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

The Bank of Canada in its January 2013 Monetary Policy Report projected growth for the Canadian economy of 2.0% in calendar 2013 and 2.7% in calendar 2014. The report also reported that the slowdown in the Canadian economy was more pronounced than anticipated in the second half of calendar 2012. Prospects of more restrained economic activity was predicted for calendar 2013 with consumer personal debt remaining at high levels curtailing household spending.

Changes to the retail landscape in Canada are taking place with increased competition from both large and mid-size international rivals expanding into Canada, spurred by a relatively strong Canadian economy and low barriers to entry. Despite this increased competitive landscape, the Company is optimistic that the strength of its brands along with recent brand initiatives will provide consumers with a desirable value proposition. The Company has invested considerably in its stores and head office systems and has undertaken to reduce capital expenditures significantly in fiscal 2014 without foregoing any opportunities that present themselves. In conjunction, the Company will leverage its technology with improved systems and processes as part of the SCORE supply chain and warehousing program while continuing its process improvement initiatives.

Despite these challenges, the Company remains poised to strengthen the Company's market position in all of our market niches by offering a broad assortment of quality merchandise at affordable prices. The Company believes that the merchandise offerings will continue to remain attractive values to the consumer.

The Company's Hong Kong office continues to serve the Company well, with over 120 full-time employees dedicated to seeking out the highest quality, affordable and fashionable apparel for all of our banners.

The Company has a strong balance sheet, with excellent liquidity and borrowing capacity providing the ability to act when opportunities present themselves in whatever format including merchandising, store acquisition/construction, system replacements/upgrading or expansion by acquisition. The Company believes in the strength of its employees and is committed to continue to invest in training for all levels.

MANAGEMENT'S **RESPONSIBILITY** FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all the information in the annual report are the responsibility of management and have been approved by the Board of Directors of Reitmans (Canada) Limited.

These consolidated financial statements have been prepared by management in conformity with International Financial Reporting Standards and include amounts that are based on best estimates and judgments. The financial information used elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management of the Company has developed and maintains a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurances that financial records are reliable and form a proper basis for the preparation of the consolidated financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in this annual report principally through its Audit Committee, consisting of all outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The auditors appointed by the shareholders have full access to the Audit Committee, with and without management being present.

These consolidated financial statements have been examined by the auditors appointed by the shareholders, KPMG LLP, and their report is presented hereafter.

(signed)

Jeremy H. Reitman
Chairman and Chief Executive Officer

(signed)

Eric Williams, CPA, CA
Vice-President, Finance and Chief Financial Officer

April 4, 2013

INDEPENDENT **AUDITORS' REPORT**

To the Shareholders of Reitmans (Canada) Limited

We have audited the accompanying consolidated financial statements of Reitmans (Canada) Limited, which comprise the consolidated balance sheets as at February 2, 2013 and January 28, 2012, the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years ended February 2, 2013 and January 28, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

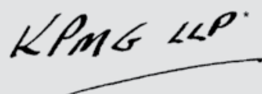
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Reitmans (Canada) Limited as at February 2, 2013 and January 28, 2012, and its consolidated financial performance and its consolidated cash flows for the years ended February 2, 2013 and January 28, 2012 in accordance with International Financial Reporting Standards.



Montreal, Canada
April 4, 2013

* CPA auditor, CA, public accountancy Permit no. A104329

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

CONSOLIDATED STATEMENTS OF **EARNINGS**

(IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS)

	For the years ended February 2, 2013	For the years ended January 28, 2012
Sales	**$ 1,000,513**	$ 1,019,397
Cost of goods sold (note 7)	**372,135**	363,333
Gross profit	**628,378**	656,064
Selling and distribution expenses	**550,165**	547,367
Administrative expenses	**47,371**	46,878
Results from operating activities	**30,842**	61,819
Finance income (note 19)	**5,624**	5,562
Finance costs (note 19)	**1,330**	1,509
Earnings before income taxes	**35,136**	65,872
Income tax expense (note 11)	**8,517**	18,333
Net earnings	**$ 26,619**	$ 47,539
Earnings per share (note 20):		
Basic	**$ 0.41**	$ 0.72
Diluted	**0.41**	0.72

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF **COMPREHENSIVE INCOME**

(IN THOUSANDS OF CANADIAN DOLLARS)

	For the years ended February 2, 2013	For the years ended January 28, 2012
Net earnings	**$ 26,619**	$ 47,539
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to net earnings:		
Reclassification of impairment loss on available-for-sale financial assets to net earnings (net of tax of $21; 2012 – $9) (note 19)	**135**	64
Net change in fair value of available-for-sale financial assets (net of tax of $25; 2012 – $79) (note 19)	**(207)**	530
	(72)	594
Items that will not be reclassified to net earnings:		
Actuarial losses on defined benefit plans (net of tax of $410; 2012 – $1,041) (note 15)	**(1,061)**	(2,965)
Total other comprehensive loss	**(1,133)**	(2,371)
Total comprehensive income	**$ 25,486**	$ 45,168

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED **BALANCE SHEETS**

(IN THOUSANDS OF CANADIAN DOLLARS)

	February 2, 2013	January 28, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 5)	**$ 97,626**	$ 196,835
Marketable securities	**71,630**	71,442
Trade and other receivables	**3,600**	3,033
Derivative financial asset (note 6)	**548**	751
Income taxes recoverable	**8,709**	4,735
Inventories (note 7)	**93,317**	93,188
Prepaid expenses	**25,944**	11,902
Total Current Assets	**301,374**	381,886
NON-CURRENT ASSETS		
Property and equipment (note 8)	**205,131**	184,221
Intangible assets (note 9)	**19,224**	17,057
Goodwill (note 10)	**42,426**	42,426
Deferred income taxes (note 11)	**26,400**	23,174
Total Non-Current Assets	**293,181**	266,878
Total Assets	**$ 594,555**	$ 648,764
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade and other payables (note 12)	**$ 68,781**	$ 78,778
Derivative financial liability (note 6)	**266**	1,505
Deferred revenue (note 13)	**16,297**	22,278
Current portion of long-term debt (note 14)	**1,570**	1,474
Total Current Liabilities	**86,914**	104,035
NON-CURRENT LIABILITIES		
Other payables (note 12)	**11,425**	11,110
Deferred lease credits	**16,805**	17,317
Long-term debt (note 14)	**7,003**	8,573
Pension liability (note 15)	**17,390**	14,877
Total Non-Current Liabilities	**52,623**	51,877
SHAREHOLDERS' EQUITY		
Share capital (note 16)	**39,227**	39,890
Contributed surplus	**6,521**	5,158
Retained earnings	**400,605**	439,067
Accumulated other comprehensive income (note 16)	**8,665**	8,737
Total Shareholders' Equity	**455,018**	492,852
Commitments (note 18)		
Total Liabilities and Shareholders' Equity	**$ 594,555**	$ 648,764

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board,

(signed)

Jeremy H. Reitman, Director

(signed)

John J. Swidler, Director

CONSOLIDATED STATEMENTS OF CHANGES IN **SHAREHOLDERS' EQUITY**

(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as at January 29, 2012		**$ 39,890**	**$ 5,158**	**$ 439,067**	**$ 8,737**	**$ 492,852**
Total comprehensive income for the year						
Net earnings				**26,619**		**26,619**
Total other comprehensive loss				**(1,061)**	**(72)**	**(1,133)**
Total comprehensive income for the year		**–**	**–**	**25,558**	**(72)**	**25,486**
Contributions by and distributions to owners of the Company						
Cancellation of shares pursuant to share repurchase program	16	**(663)**				**(663)**
Share-based compensation costs	17		**1,363**			**1,363**
Dividends	16			**(52,068)**		**(52,068)**
Premium on repurchases of Class A non-voting shares	16			**(11,952)**		**(11,952)**
Total contributions by and distributions to owners of the Company		**(663)**	**1,363**	**(64,020)**	**–**	**(63,320)**
Balance as at February 2, 2013		**$ 39,227**	**$ 6,521**	**$ 400,605**	**$ 8,665**	**$ 455,018**
Balance as at January 30, 2011		$ 29,614	$ 6,266	$ 468,777	$ 8,143	$ 512,800
Total comprehensive income for the year						
Net earnings				47,539		47,539
Total other comprehensive loss				(2,965)	594	(2,371)
Total comprehensive income for the year		–	–	44,574	594	45,168
Contributions by and distributions to owners of the Company						
Cash consideration on exercise of share options	16	8,828				8,828
Ascribed value credited to share capital from exercise of share options	16	2,228	(2,228)			–
Cancellation of shares pursuant to share repurchase program	16	(780)				(780)
Share-based compensation costs	17		1,120			1,120
Dividends	16			(52,654)		(52,654)
Premium on repurchases of Class A non-voting shares	16			(21,630)		(21,630)
Total contributions by and distributions to owners of the Company		10,276	(1,108)	(74,284)	–	(65,116)
Balance as at January 28, 2012		$ 39,890	$ 5,158	$ 439,067	$ 8,737	$ 492,852

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF **CASH FLOWS**

(IN THOUSANDS OF CANADIAN DOLLARS)

	For the years ended February 2, 2013	For the years ended January 28, 2012
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Net earnings	**$ 26,619**	$ 47,539
Adjustments for:		
Depreciation, amortization and impairment losses	**59,655**	64,990
Share-based compensation costs	**1,363**	1,120
Amortization of deferred lease credits	**(4,485)**	(4,635)
Deferred lease credits	**3,973**	2,941
Pension contribution	**(303)**	(4,245)
Pension expense	**1,345**	1,490
Impairment loss on available-for-sale financial assets	**156**	73
Net change in fair value of derivatives	**(1,036)**	754
Foreign exchange (gain) loss on cash and cash equivalents	**(4)**	2,942
Interest and dividend income, net	**(3,996)**	(4,147)
Interest paid	**(592)**	(682)
Interest received	**1,184**	1,316
Dividends received	**3,871**	3,460
Income tax expense	**8,517**	18,333
	96,267	131,249
Changes in:		
Trade and other receivables	**(1,034)**	(114)
Inventories	**(129)**	(5)
Prepaid expenses	**(14,042)**	589
Trade and other payables	**(7,981)**	(4,575)
Deferred revenue	**(5,981)**	60
Cash from operating activities	**67,100**	127,204
Income taxes received	**4,497**	793
Income taxes paid	**(19,800)**	(31,060)
Net cash flows from operating activities	**51,797**	96,937
CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES		
Purchases of marketable securities	**(420)**	(420)
Additions to property and equipment and intangible assets	**(84,433)**	(59,154)
Cash flows used in investing activities	**(84,853)**	(59,574)
CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES		
Dividends paid	**(52,068)**	(52,654)
Purchase of Class A non-voting shares for cancellation	**(12,615)**	(22,410)
Repayment of long-term debt	**(1,474)**	(1,384)
Proceeds from exercise of share options	**–**	8,828
Cash flows used in financing activities	**(66,157)**	(67,620)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN FOREIGN CURRENCY	**4**	(2,942)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(99,209)**	(33,199)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**196,835**	230,034
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**$ 97,626**	$ 196,835

Supplementary cash flow information (note 25)

The accompanying notes are an integral part of these consolidated financial statements.

1 REPORTING ENTITY

Reitmans (Canada) Limited (the "Company") is a company domiciled in Canada and is incorporated under the Canada Business Corporations Act. The address of the Company's registered office is 3300 Highway #7 West, Suite 702, Vaughan, Ontario L4K 4M3. The principal business activity of the Company is the sale of women's wear at retail.

2 BASIS OF PRESENTATION

A) FISCAL YEAR

The Company's fiscal year ends on the Saturday closest to the end of January. All references to 2013 and 2012 represent the fiscal years ended February 2, 2013 and January 28, 2012, respectively. Fiscal 2013 includes 53 weeks instead of the normal 52 weeks. The inclusion of an extra week occurs every fifth or sixth fiscal year due to the Company's floating year-end date.

B) STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors on April 4, 2013.

C) BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on the historical cost basis except for the following material items:

- available-for-sale financial assets are measured at fair value through other comprehensive income;
- the pension liability is recognized as the present value of the defined benefit obligation less the total of the fair value of the plan assets and the unrecognized past service cost; and
- derivative financial instruments are measured at fair value.

D) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts.

E) ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. These estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

Following are the most important accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

Key Sources of Estimation Uncertainty

i) Pension Plans

The cost of defined benefit pension plans is determined by means of actuarial valuations, which involve making assumptions about discount rates, the expected long-term rate of return on plan assets, future salary increases, mortality rates and the future increases in pensions. Because of the long-term nature of the plans, such estimates are subject to a high degree of uncertainty.

ii) Gift Cards / Loyalty Points and Awards

Gift cards sold are recorded as deferred revenue and revenue is recognized when the gift cards are redeemed. An estimate is made of gift cards not expected to be redeemed based on the terms of the gift cards and historical redemption patterns. Loyalty points and awards granted under customer loyalty programs are recognized as a separate component of revenue and are deferred at the date of initial sale. Revenue is recognized when the loyalty points and awards are redeemed and the Company has fulfilled its obligation. The amount of revenue deferred is measured based on the fair value of loyalty points and awards granted, taking into consideration the estimated redemption percentage.

iii) Inventory

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess inventory are made. The Company has set up provisions for merchandise in inventory that may have to be sold below cost. For this purpose, the Company has developed assumptions regarding the quantity of merchandise sold below cost.

iv) Asset Impairment

The Company must assess the possibility that the carrying amounts of tangible and intangible assets may not be recoverable. Management is required to make significant estimates related to future cash flows to determine the amount of asset impairment that should be recognized.

v) Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite useful lives are allocated to a cash-generating unit ("CGU"). Impairment testing is performed whenever there is an indication of impairment, except for goodwill and intangible assets with indefinite useful lives for which impairment testing is performed at least once per year. Significant management estimates are required to determine the recoverable amount of the CGU including estimates of fair value, selling costs or the discounted future cash flows related to the CGU. Differences in estimates could affect whether goodwill or intangible assets with indefinite useful lives are in fact impaired and the dollar amount of that impairment.

Judgments Made in Relation to Accounting Policies Applied

i) Financial Instruments

The Company does not separately account for embedded US dollar foreign exchange derivatives in its purchase contracts of merchandise from suppliers in China as the Company has determined the US dollar to be commonly used in that country's economic environment.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

A) ADOPTION OF NEW ACCOUNTING POLICY

The Company has early adopted amendments to IAS 1, *Presentation of Financial Statements*. As a result, the components of other comprehensive income are presented separately for items that may be reclassified to the consolidated statement of earnings in the future from those that would never be reclassified to the consolidated statement of earnings. The adoption of the accountancy policy did not have an effect on total comprehensive income or earnings per share for the current and comparative years.

B) BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at February 2, 2013. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared with the same reporting period of the Company. The accounting policies of subsidiaries are aligned with the policies of the Company. All significant inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated in preparing the consolidated financial statements.

C) FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Other balance sheet items denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the respective transaction dates. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average rates of exchange prevailing during the period. The resulting gains or losses on translation are included in the determination of net earnings.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, bank balances and short-term deposits with original maturities of three months or less.

E) FINANCIAL INSTRUMENTS

All financial instruments are classified into one of the following five categories: financial assets and financial liabilities at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheet and are initially measured at fair value. The Company accounts for transaction costs related to financial instruments, other than those classified as fair value through profit or loss and for derivative instruments, in the initial measurement of the instrument. Subsequent measurement depends on their initial classification. Financial instruments and financial liabilities classified as financial assets and liabilities at fair value through profit or loss are subsequently measured at fair value and all gains and losses are included in net earnings in the period in which they arise. Available-for-sale financial instruments are subsequently measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to net earnings. Loans and receivables, held-to-maturity investments and other financial liabilities, are subsequently measured at amortized cost using the effective interest rate method, less impairment losses.

Financial assets and liabilities measured at fair value use a fair value hierarchy to prioritize the inputs used in measuring fair value. Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company has classified its cash and cash equivalents and its trade and other receivables as loans and receivables and its marketable securities as available-for-sale financial assets. Trade and other payables and long-term debt have been classified as other financial liabilities.

Financial assets and liabilities are offset and the net amount is presented in the consolidated balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Derivative instruments are recorded at their fair value except under the own use exemption. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in net earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The Company considers the use of foreign currency option contracts, with maturities not exceeding six months, to manage its US dollar exposure. Foreign currency option contracts are not designated as hedges. Derivative financial instruments are not used for trading or speculative purposes.

F) PROPERTY AND EQUIPMENT

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is recognized in net earnings on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Land is not depreciated. Leasehold improvements are depreciated over the lesser of the estimated useful life of the asset and the lease term. Assets not in service include expenditures incurred to-date for equipment not yet available for use. Depreciation of assets not in service begins when they are ready for their intended use. Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	10 to 50 years
Fixtures and equipment	3 to 20 years
Leasehold improvements	6.7 to 10 years

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted prospectively, if appropriate.

Gains and losses on disposal of items of property and equipment are recognized in net earnings.

G) GOODWILL

Goodwill is measured at the acquisition date as the fair value of the consideration transferred less the net identifiable assets of the acquired company or business activities. Goodwill is not amortized and is carried at cost less accumulated impairment losses.

H) INTANGIBLE ASSETS

Intangible assets are comprised of software and acquired trademarks and their useful lives are assessed to be either finite or indefinite.

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated over the cost of the asset less its residual value. Amortization is recognized in net earnings on a straight-line basis over the estimated useful lives of the intangible assets. Amortization of intangible assets not in service begins when they are ready for their intended use. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The estimated useful lives for the current and comparative periods are as follows:

Software	3 to 5 years

Amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted prospectively, if appropriate.

Intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset may be impaired. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Trademarks are considered to have indefinite useful lives.

I) LEASED ASSETS

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. The Company carries on its operations in premises under leases of varying terms, which are accounted for as operating leases. Payments under an operating lease are recognized in net earnings on a straight-line basis over the term of the lease. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and, consequently, records the difference between the recognized rental expense and the amounts payable under the lease as deferred rent, which is included in trade and other payables on the balance sheet. Contingent (sales-based) rentals are recognized in net earnings in the period in which they are incurred.

Tenant allowances are recorded as deferred lease credits and amortized as a reduction of rent expense over the term of the related leases.

J) INVENTORIES

Merchandise inventories are measured at the lower of cost, determined on an average basis using the retail inventory method, and net realizable value. Costs include the cost of purchase, transportation costs that are directly incurred to bring inventories to their present location and condition, and certain distribution centre costs related to inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold, in the ordinary course of business, less the estimated costs necessary to make the sale, taking into consideration fluctuations of retail prices due to seasonality.

K) IMPAIRMENT

i) Non-Financial Assets

All non-financial assets are reviewed at each reporting date for indications that the carrying amount may not be recoverable. When there is evidence of impairment, an impairment test is carried out. Goodwill is tested for impairment at least annually at the year-end reporting date, and whenever there is an indication that the asset may be impaired. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (defined as "cash-generating unit" or "CGU"). Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the other assets in the CGU.

An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount. The recoverable amount is the higher of the value-in-use and the fair value less costs to sell. The value-in-use is the present value of estimated future cash flows, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The fair value less costs to sell is the amount for which an asset or CGU can be sold in a transaction under normal market conditions between knowledgeable and willing contracting parties, less costs to sell.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the combination. This allocation reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGUs to which the corporate asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

ii) Financial Assets

For an investment in an equity security, a significant or prolonged decline in its fair value below cost is objective evidence of impairment. Impairment losses on available-for-sale financial assets are recognized by reclassifying losses accumulated in accumulated other comprehensive income to net earnings. The cumulative loss that is reclassified from accumulated other comprehensive income is the difference between the acquisition cost and the current fair value, less any impairment losses recognized previously in net earnings.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

L) EMPLOYEE BENEFITS

i) Pension Benefit Plans

The Company maintains a contributory defined benefit plan ("Plan") that provides benefits to employees based on length of service and average earnings in the best five consecutive years of employment. The Company also sponsors a Supplemental Executive Retirement Plan ("SERP"), which is neither registered nor pre-funded. The costs of these retirement benefit plans are determined periodically by independent actuaries.

Benefits are also given to employees through defined contribution plans administered by the Federal and Québec governments. Company contributions to these plans are recognized in the periods when the services are rendered.

Pension expense/income is included in the determination of net earnings according to the following policies:

- The present value of the defined benefit obligation is actuarially determined using the projected unit credit method.
- For the purpose of calculating expected return on plan assets, the valuation of those assets is based on quoted market values at the year-end date.
- The discount rate used to value the defined benefit obligation is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.
- Unrecognized past service costs related to benefits are amortized on a straight-line basis over the average period until vesting. To the extent that the benefits vest immediately, the expense is recognized immediately in net earnings.

The Company recognizes all actuarial gains and losses from the Plan and SERP immediately in other comprehensive income, and reports them in retained earnings. Expenses related to defined contribution plans are recognized in net earnings in the periods in which they occur. The net obligation in respect of the Plan and SERP is the amount of future benefits that members have earned in return for their service in the current and prior periods discounted to its present value, less any unrecognized past service costs and the fair value of the plan assets.

ii) Short-Term Employee Benefits

Short-term employee benefit obligations, which include wages, salaries, compensated absences and bonuses, are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

iii) Share-Based Compensation

Some employees receive part of their compensation in the form of share-based payments which are recognised as an employee expense, with a corresponding increase to contributed surplus in equity, over the period that the employees unconditionally become entitled to the awards. The Company accounts for share-based compensation using the fair value based method. Compensation expense is measured at the fair value at the date of grant and the fair value of each award is recognized over its respective vesting period, which is normally five years. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met.

M) PROVISIONS

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the unwinding of the discount is recognized as finance cost.

N) REVENUE

Revenue is recognized from the sale of merchandise when a customer purchases and takes delivery of the merchandise. Reported sales are net of returns and estimated possible returns and exclude sales taxes.

Gift cards sold are recorded as deferred revenue and revenue is recognized when the gift cards are redeemed. An estimate is made of gift cards not expected to be redeemed based on the terms of the gift cards and historical redemption patterns.

Loyalty points and awards granted under customer loyalty programs are recognized as a separate component of revenue, and are deferred at the date of initial sale. Revenue is recognized when the loyalty points and awards are redeemed and the Company has fulfilled its obligation. The amount of revenue deferred is measured based on the fair value of loyalty points and awards granted, taking into consideration the estimated redemption percentage.

O) FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest and dividend income, realized gains on sale of marketable securities, changes in the fair value of derivatives as well as foreign exchange gains. Finance costs comprise interest expense, realized losses on sale of marketable securities, changes in the fair value of derivatives as well as foreign exchange losses. Interest income is recognized on an accrual basis and interest expense is recorded using the effective interest method. Dividend income is recognized when the right to receive payment is established. Foreign exchange gains and losses and changes in the fair value of derivatives are reported on a net basis.

P) INCOME TAX

Income tax expense comprises current and deferred taxes. Current income taxes and deferred income taxes are recognized in net earnings except for items recognized directly in equity or in other comprehensive income.

The Company's income tax expense is based on tax rules and regulations that are subject to interpretation and require estimates and assumptions that may be challenged by taxation authorities. Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years. The Company's estimates of current income tax assets and liabilities are periodically reviewed and adjusted as circumstances warrant, such as for changes to tax laws and administrative guidance, and the resolution of uncertainties through either the conclusion of tax audits or expiration of prescribed time limits within the relevant statutes. The final results of government tax audits and other events may vary materially compared to estimates and assumptions used by management in determining the income tax expense and in measuring current income tax assets and liabilities.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in net earnings in the period that includes the enactment date, except to the extent that it relates to an item recognized either in other comprehensive income or directly in equity in the current or in a previous period.

The Company only offsets income tax assets and liabilities if it has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are recognized on the consolidated balance sheet under non-current assets or liabilities, irrespective of the expected date of realization or settlement.

Q) EARNINGS PER SHARE

The Company presents basic and diluted earnings per share ("EPS") data for its shares.

Basic EPS is calculated by dividing the net earnings of the Company by the weighted average number of Class A non-voting and Common shares outstanding during the period.

Diluted EPS is determined by adjusting the weighted average number of shares outstanding to include additional shares issued from the assumed exercise of share options, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises, as well as the amount of unrecognized share-based compensation, are used to purchase Class A non-voting shares at the average market share price during the reporting period.

R) SHARE CAPITAL

Class A non-voting shares and Common shares are classified as equity. Incremental costs directly attributable to the issue of these shares and share options are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is purchased for cancellation, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. The excess of the purchase price over the carrying amount of the shares is charged to retained earnings.

S) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended February 2, 2013 and have not been applied in preparing these consolidated financial statements. New standards and amendments to standards and interpretations that are currently under review include:

IFRS 9 – Financial Instruments

This standard becomes mandatory for the years commencing on or after January 1, 2015 with earlier application permitted. IFRS 9 is a new standard which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*.

IFRS 13 – Fair Value Measurement

This standard provides new guidance on fair value measurement and disclosure requirements, which becomes effective for annual periods commencing on or after January 1, 2013.

IAS 19 – Employee Benefits

Amendments to IAS 19, *Employee Benefits* include the elimination of the option to defer the recognition of gains and losses, enhancing the guidance around measurement of plan assets and defined benefit obligations, streamlining the presentation of changes in assets and liabilities arising from defined benefit plans and the introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013.

The Company has not determined the extent of the impact of the adoption of the new standards on its consolidated financial statements.

4 DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value estimates are made at a specific point in time, using available information about the asset or liability. These estimates are subjective in nature and often cannot be determined with precision. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

A) FINANCIAL ASSETS

The Company has determined that the carrying amount of its short-term financial assets approximates fair value at the reporting date due to the short-term maturity of these instruments. The fair value of the Company's available-for-sale financial assets is determined by reference to their quoted closing prices in active markets at the reporting date, which is considered Level 1 input in the fair value hierarchy.

B) NON-DERIVATIVE FINANCIAL LIABILITIES

The fair value of the Company's long-term debt bearing interest at a fixed rate, which is determined for disclosure purposes, is calculated using the present value of future payments of principal and interest discounted at the current market rates of interest available to the Company for the same or similar debt instruments with the same remaining maturity.

C) DEFERRED REVENUE

The amount of revenue deferred with respect to the Company's customer loyalty reward programs is estimated by reference to the fair value of the merchandise for which the loyalty rewards could be redeemed. The fair value takes into account the expected redemption rate and the timing of such expected redemptions.

D) DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of foreign currency option contracts is determined through a standard option valuation technique used by the counterparty based on Level 2 inputs.

E) SHARE-BASED PAYMENT TRANSACTIONS

The fair values of the employee share options are measured based on the Black-Scholes valuation model. Measurement inputs include share price on measurement date, exercise price of the share option, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the share option (based on historic experience and general option holder behaviour), expected dividends, and risk-free interest rate (based on government bonds).

5 CASH AND CASH EQUIVALENTS

	February 2, 2013	January 28, 2012
Cash on hand and with banks	**$ 9,248**	$ 12,563
Short-term deposits, bearing interest at 0.6% (January 28, 2012 – 0.9%)	**88,378**	184,272
	$ 97,626	$ 196,835

6 FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Company entered into transactions with its bank whereby it purchased call options and sold put options, both on the US dollar ("USD"). These option contracts extend over a period of six months. Purchased call options and sold put options expiring on the same date have the same strike price. The average strike price for call and put options outstanding is $0.9849 (January 28, 2012 – $1.0012).

Details of the foreign currency option contracts outstanding for the years ended February 2, 2013 and January 28, 2012 are as follows:

	February 2, 2013			
	Notional Amount in USD	Derivative Financial Asset	Derivative Financial Liability	Net
Put options sold	$ 30,000	$ 548	$ –	$ 548
Call options purchased	(60,000)	–	(266)	(266)
	$ (30,000)	**$ 548**	**$ (266)**	**$ 282**

	January 28, 2012			
	Notional Amount in USD	Derivative Financial Asset	Derivative Financial Liability	Net
Put options sold	$ 44,000	$ 751	$ –	$ 751
Call options purchased	(100,000)	–	(1,505)	(1,505)
	$ (56,000)	**$ 751**	**$ (1,505)**	**$ (754)**

7 INVENTORIES

During the year ended February 2, 2013, inventories recognized as cost of goods sold amounted to $369,271 (January 28, 2012 – $361,319). In addition, $2,864 (January 28, 2012 – $2,014) of write-downs of inventories as a result of net realizable value being lower than cost were recognized in cost of goods sold, and no inventory write-downs recognized in previous periods were reversed. Included in inventories is an amount of $21,600 (January 28, 2012 – $22,679) representing goods in transit. The January 28, 2012 inventories have been recast to include an adjustment of $14,903, increasing inventory in transit with a corresponding increase in current trade payables.

8 PROPERTY AND EQUIPMENT

	Land	Buildings	Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at January 30, 2011	$ 5,860	$ 51,925	$ 175,386	$ 194,905	$ 428,076
Additions	–	2,291	25,079	24,818	52,188
Disposals	–	(53)	(37,346)	(37,650)	(75,049)
Balance at January 28, 2012	$ 5,860	$ 54,163	$ 163,119	$ 182,073	$ 405,215
Balance at January 29, 2012	**$ 5,860**	**$ 54,163**	**$ 163,119**	**$ 182,073**	**$ 405,215**
Additions	**–**	**1,166**	**34,757**	**39,562**	**75,485**
Disposals	**–**	**(2,180)**	**(31,120)**	**(31,905)**	**(65,205)**
Balance at February 2, 2013	**$ 5,860**	**$ 53,149**	**$ 166,756**	**$ 189,730**	**$ 415,495**
Accumulated depreciation and impairment losses					
Balance at January 30, 2011	$ –	$ 19,470	$ 101,880	$ 113,662	$ 235,012
Depreciation	–	2,601	25,599	26,699	54,899
Impairment loss	–	–	2,296	4,427	6,723
Reversal of impairment loss	–	–	–	(591)	(591)
Disposals	–	(53)	(37,346)	(37,650)	(75,049)
Balance at January 28, 2012	$ –	$ 22,018	$ 92,429	$ 106,547	$ 220,994
Balance at January 29, 2012	**$ –**	**$ 22,018**	**$ 92,429**	**$ 106,547**	**$ 220,994**
Depreciation	**–**	**2,629**	**24,627**	**25,791**	**53,047**
Impairment loss	**–**	**–**	**–**	**2,128**	**2,128**
Reversal of impairment loss	**–**	**–**	**–**	**(600)**	**(600)**
Disposals	**–**	**(2,180)**	**(31,120)**	**(31,905)**	**(65,205)**
Balance at February 2, 2013	**$ –**	**$ 22,467**	**$ 85,936**	**$ 101,961**	**$ 210,364**
Net carrying amounts					
At January 28, 2012	$ 5,860	$ 32,145	$ 70,690	$ 75,526	$ 184,221
At February 2, 2013	**$ 5,860**	**$ 30,682**	**$ 80,820**	**$ 87,769**	**$ 205,131**

During the year, the Company tested for impairment certain items of property and equipment for which there were indications that their carrying amounts may not be recoverable and recognized an impairment loss of $2,128 (January 28, 2012 – $6,723). The recoverable amounts of the CGUs tested for impairment were based on their value-in-use which was determined using a pre-tax discount rate of 10% (January 28, 2012 – 11%). During the year, $600 of impairment losses were reversed following an improvement in the profitability of certain CGUs (January 28, 2012 – $591).

Depreciation expense and net impairment losses for the year have been recorded in selling and distribution expenses and administrative expenses in the consolidated statements of earnings.

Property and equipment includes an amount of $1,779 (January 28, 2012 – $8,414) that is not being depreciated. Depreciation will begin when the assets are available for use.

9 INTANGIBLE ASSETS

	Software	Trademarks	Total
Cost			
Balance at January 30, 2011	$ 22,184	$ –	$ 22,184
Additions	7,175	–	7,175
Disposals	(1,105)	–	(1,105)
Balance at January 28, 2012	$ 28,254	$ –	$ 28,254
Balance at January 29, 2012	**$ 28,254**	**$ –**	**$ 28,254**
Additions	**6,748**	**499**	**7,247**
Disposals	**(6,086)**	**–**	**(6,086)**
Balance at February 2, 2013	**$ 28,916**	**$ 499**	**$ 29,415**
Accumulated depreciation and impairment losses			
Balance at January 30, 2011	$ 8,343	$ –	$ 8,343
Amortization	3,959	–	3,959
Disposals	(1,105)	–	(1,105)
Balance at January 28, 2012	$ 11,197	$ –	$ 11,197
Balance at January 29, 2012	**$ 11,197**	**$ –**	**$ 11,197**
Amortization	**5,080**	**–**	**5,080**
Disposals	**(6,086)**	**–**	**(6,086)**
Balance at February 2, 2013	**$ 10,191**	**$ –**	**$ 10,191**
Net carrying amounts			
At January 28, 2012	$ 17,057	$ –	$ 17,057
At February 2, 2013	**$ 18,725**	**$ 499**	**$ 19,224**

The amortization of intangibles has been recorded in selling and distribution expenses and administrative expenses in the consolidated statements of earnings.

Software includes an amount of $6,638 (January 28, 2012 – $10,846) that is not being amortized. Amortization will begin when the software is put into service.

10 GOODWILL

Goodwill is tested for impairment as described in note 3 k). For impairment testing purposes the Company uses the value-in-use approach. Value-in-use is determined by discounting the future cash flows generated from the continuing use of the respective CGU.

Management's key assumptions for cash flow projections are based on the most recent annualized operating results and budget projections, assuming a series of cash flows in perpetuity. Projected cash flows are discounted using a pre-tax rate of 9.5% (January 28, 2012 – 10%) that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

Based upon the impairment tests as at February 2, 2013 and January 28, 2012, the value-in-use was determined to be higher than the carrying values. As a result, no impairment losses were recognized.

11 INCOME TAX

INCOME TAX EXPENSE

The Company's income tax expense is comprised as follows:

	For the years ended February 2, 2013	For the years ended January 28, 2012
Current Tax Expense		
Current period	**$ 11,450**	$ 19,840
Adjustment for prior years	**(121)**	(307)
Current tax expense	**11,329**	19,533
Deferred Tax Expense		
Deferred tax recovery prior to adjustment	**(2,467)**	(1,771)
Changes in tax rates	**(345)**	319
Adjustment for prior years	**–**	252
Deferred tax recovery	**(2,812)**	(1,200)
Total income tax expense	**$ 8,517**	$ 18,333

INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

	February 2, 2013			January 28, 2012		
	Before tax	**Tax benefit**	**Net of tax (expense)**	**Before tax**	**Tax (expense) benefit**	**Net of tax benefit (expense)**
Available-for-sale financial assets	**$ (76)**	**$ 4**	**$ (72)**	$ 682	$ (88)	$ 594
Defined benefit plan actuarial losses	**(1,471)**	**410**	**(1,061)**	(4,006)	1,041	(2,965)
	$ (1,547)	**$ 414**	**$ (1,133)**	$ (3,324)	$ 953	$ (2,371)

RECONCILIATION OF EFFECTIVE TAX RATE

	February 2, 2013		January 28, 2012	
Earnings before income taxes	**$ 35,136**		$ 65,872	
Income tax using the Company's statutory tax rate	**9,426**	**26.83%**	18,642	28.30%
Changes in tax rates	**(345)**	**(0.98%)**	319	0.48%
Non-deductible expenses and other adjustments	**591**	**1.68%**	393	0.60%
Tax exempt income	**(1,034)**	**(2.94%)**	(966)	(1.47%)
Over provided in prior periods	**(121)**	**(0.35%)**	(55)	(0.08%)
	$ 8,517	**24.24%**	$ 18,333	27.83%

RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	February 2, 2013	**January 28, 2012**	**February 2, 2013**	**January 28, 2012**	**February 2, 2013**	**January 28, 2012**
Property, equipment and intangible assets	**$ 19,326**	$ 17,364	**$ –**	$ –	**$ 19,326**	$ 17,364
Marketable securities	**–**	–	**354**	379	**(354)**	(379)
Inventories	**–**	–	**1,490**	1,144	**(1,490)**	(1,144)
Trade and other payables	**3,636**	3,461	**–**	–	**3,636**	3,461
Pension liability	**4,595**	3,868	**–**	–	**4,595**	3,868
Tax benefit of losses carried forward	**693**	–	**–**	–	**693**	–
Other	**33**	42	**39**	38	**(6)**	4
	$ 28,283	$ 24,735	**$ 1,883**	$ 1,561	**$ 26,400**	$ 23,174

CHANGES IN DEFERRED TAX BALANCES DURING THE YEAR

	Balance January 30, 2011	**Recognized in Net Earnings**	**Recognized in Other Comprehensive Income**	**Balance January 28, 2012**	**Recognized in Net Earnings**	**Recognized in Other Comprehensive Income**	**Balance February 2, 2013**
Property, equipment and intangible assets	$ 12,984	$ 4,380	$ –	$ 17,364	$ 1,962	$ –	**$ 19,326**
Prepaid expenses	214	(214)	–	–	–	–	**–**
Marketable securities	(299)	8	(88)	(379)	21	4	**(354)**
Inventories	(1,082)	(62)	–	(1,144)	(346)	–	**(1,490)**
Trade and other payables	5,644	(2,183)	–	3,461	175	–	**3,636**
Pension liability	3,534	(707)	1,041	3,868	317	410	**4,595**
Tax benefit of losses carried forward	–	–	–	–	693	–	**693**
Other	26	(22)	–	4	(10)	–	**(6)**
	$ 21,021	$ 1,200	$ 953	$ 23,174	$ 2,812	$ 414	**$ 26,400**

12 TRADE AND OTHER PAYABLES

	February 2, 2013	**January 28, 2012**
Trade payables	**$ 41,125**	$ 41,058
Non-trade payables due to related parties	**74**	56
Other non-trade payables	**319**	10,553
Personnel liabilities	**24,443**	23,053
Payables relating to premises	**13,489**	14,398
Provision for sales returns	**756**	770
	80,206	89,888
Less non-current portion	**11,425**	11,110
	$ 68,781	$ 78,778

The non-current portion of trade and other payables, which is included in payables relating to premises, represents the portion of deferred rent to be amortized beyond the next twelve months.

13 DEFERRED REVENUE

	February 2, 2013	January 28, 2012
Loyalty points and awards granted under loyalty programs	**$ 5,473**	$ 10,979
Unredeemed gift cards	**10,824**	11,299
	$ 16,297	$ 22,278

14 LONG-TERM DEBT

	February 2, 2013	January 28, 2012
Mortgage payable	**$ 8,573**	$ 10,047
Less current portion	**1,570**	1,474
	$ 7,003	$ 8,573

The mortgage, bearing interest at 6.40%, is payable in monthly instalments of principal and interest of $172. It is due November 2017 and is secured by the Company's distribution centre having a carrying value of $17,330 (January 28, 2012 – $18,306).

As at February 2, 2013, principal repayments on long-term debt are as follows:

Within 1 year	$ 1,570
Within 2 years	1,672
Within 3 years	1,780
Within 4 years	1,896
Within 5 years	1,655
	$ 8,573

As at February 2, 2013, the fair value of long-term debt was $9,208 (January 28, 2012 – $10,882) compared to its carrying value of $8,573 (January 28, 2012 – $10,047).

15 PENSION LIABILITY

The following tables present reconciliations of the pension obligations, the plan assets and the funded status of the retirement benefit plans:

FUNDED STATUS

	Fair value of plan assets	Defined benefit obligation	Funded status	Unamortized non-vested past service cost	Pension asset (liability)
As at February 2, 2013					
Plan	**$ 16,432**	**$ 17,192**	**$ (760)**	**$ –**	**$ (760)**
SERP	**–**	**16,799**	**(16,799)**	**169**	**(16,630)**
Total	**$ 16,432**	**$ 33,991**	**$ (17,559)**	**$ 169**	**$ (17,390)**
As at January 28, 2012					
Plan	$ 15,727	$ 15,318	$ 409	$ –	$ 409
SERP	–	15,540	(15,540)	254	(15,286)
Total	$ 15,727	$ 30,858	$ (15,131)	$ 254	$ (14,877)
Historical Information					
As at January 29, 2011					
Plan	$ 11,936	$ 12,717	$ (781)	$ –	$ (781)
SERP	–	13,184	(13,184)	339	(12,845)
Total	$ 11,936	$ 25,901	$ (13,965)	$ 339	$ (13,626)
As at January 31, 2010					
Plan	$ 10,369	$ 11,399	$ (1,030)	$ –	$ (1,030)
SERP	–	11,259	(11,259)	424	(10,835)
Total	$ 10,369	$ 22,658	$ (12,289)	$ 424	$ (11,865)

	For the years ended February 2, 2013	January 28, 2012	January 29, 2011
Experience adjustments arising on:			
Plan obligations	**$ 1,310**	$ 3,328	$ 1,760
Plan assets	**(161)**	(677)	712

	For the years ended					
	February 2, 2013			January 28, 2012		
	Plan	SERP	Total	Plan	SERP	Total
Movement in the present value of the defined benefit obligation						
Defined benefit obligation, beginning of year	**$ 15,318**	**$ 15,540**	**$ 30,858**	$ 12,717	$ 13,184	$ 25,901
Current service cost	**812**	**105**	**917**	596	239	835
Interest cost	**690**	**670**	**1,360**	684	695	1,379
Employee contributions	**143**	**–**	**143**	144	–	144
Actuarial losses	**698**	**612**	**1,310**	1,778	1,550	3,328
Benefits paid	**(469)**	**(128)**	**(597)**	(601)	(128)	(729)
Defined benefit obligation, end of year	**$ 17,192**	**$ 16,799**	**$ 33,991**	$ 15,318	$ 15,540	$ 30,858
Movement in the fair value of plan assets						
Fair value of plan assets, beginning of year	**$ 15,727**	**$ –**	**$ 15,727**	$ 11,936	$ –	$ 11,936
Expected return on plan assets	**1,017**	**–**	**1,017**	808	–	808
Investment loss	**(161)**	**–**	**(161)**	(677)	–	(677)
Employer contributions	**175**	**128**	**303**	4,117	128	4,245
Employee contributions	**143**	**–**	**143**	144	–	144
Benefits paid	**(469)**	**(128)**	**(597)**	(601)	(128)	(729)
Fair value of plan assets, end of year	**$ 16,432**	**$ –**	**$ 16,432**	$ 15,727	$ –	$ 15,727

The Company has determined that, in accordance with the terms and conditions of the defined benefit plan, and in accordance with statutory requirements (such as minimum funding requirements) of the plans of the respective jurisdictions, the present value of refunds or reductions in the future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of the obligations. As such, no decrease in the defined benefit plan asset is necessary at February 2, 2013 (January 28, 2012 – no decrease in defined benefit plan asset).

The asset allocation of the major asset categories in the Plan for each of the years was as follows:

	February 2, 2013	January 28, 2012
Equity securities	**61%**	60%
Debt securities	**37%**	38%
Cash and cash equivalents	**2%**	2%
	100%	100%

The Company's pension expense was as follows:

	For the years ended					
	February 2, 2013			January 28, 2012		
	Plan	SERP	Total	Plan	SERP	Total
Pension costs recognized in net earnings						
Current service cost	**$ 812**	**$ 105**	**$ 917**	$ 596	$ 239	$ 835
Interest cost	**690**	**670**	**1,360**	684	695	1,379
Expected return on plan assets	**(1,017)**	**–**	**(1,017)**	(808)	–	(808)
Past service cost	**–**	**85**	**85**	–	84	84
Pension expense	**$ 485**	**$ 860**	**$ 1,345**	$ 472	$ 1,018	$ 1,490

Pension expense is recognized in administration expenses in the consolidated statements of earnings.

The following table presents the change in the actuarial gains and losses recognized in other comprehensive income:

	For the years ended					
	February 2, 2013			January 28, 2012		
	Plan	SERP	Total	Plan	SERP	Total
Cumulative amount in retained earnings at the beginning of the year	**$ 2,312**	**$ 2,743**	**$ 5,055**	$ (144)	$ 1,193	$ 1,049
Recognized during the year	**859**	**612**	**1,471**	2,456	1,550	4,006
Cumulative amount in retained earnings at the end of the year	**$ 3,171**	**$ 3,355**	**$ 6,526**	$ 2,312	$ 2,743	$ 5,055
Recognized during the year net of tax			**$ 1,061**			$ 2,965

ACTUARIAL ASSUMPTIONS

Principal actuarial assumptions used were as follows:

	For the years ended	
	February 2, 2013	January 28, 2012
Accrued benefit obligation:		
Discount rate	**4.00%**	4.30%
Salary increase	**5.00%**	5.00%
Employee benefit expense:		
Discount rate	**4.30%**	5.20%
Expected return on plan assets	**6.50%**	6.50%
Salary increase	**5.00%**	3.00%

Expected rates of return on plan assets are based on external historical and forecast market information.

The Company expects $650 in employer contributions to be paid to the Plan and $128 to the SERP in the year ending February 1, 2014.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes at year-end. The most recent actuarial valuation for funding purposes was as of December 31, 2011 and the next required valuation will be as of December 31, 2012.

16 SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

The change in share capital for each of the periods listed was as follows:

	For the years ended			
	February 2, 2013		January 28, 2012	
	Number of shares (in 000's)	Carrying amount	Number of shares (in 000's)	Carrying amount
Common shares				
Balance at beginning and end of the year	**13,440**	**$ 482**	13,440	$ 482
Class A non-voting shares				
Balance at beginning of the year	**52,146**	**39,408**	52,869	29,132
Shares issued pursuant to exercise of share options	**–**	**–**	722	11,056
Shares purchased under issuer bid	**(1,000)**	**(663)**	(1,445)	(780)
Balance at end of the year	**51,146**	**38,745**	52,146	39,408
Total share capital	**64,586**	**$ 39,227**	65,586	$ 39,890

AUTHORIZED SHARE CAPITAL

The Company has authorized for issuance an unlimited number of Common shares and Class A non-voting shares. Both Common shares and Class A non-voting shares have no par value. All issued shares are fully paid.

The Common shares and Class A non-voting shares of the Company rank equally and pari passu with respect to the right to receive dividends and upon any distribution of the assets of the Company. However, in the case of share dividends, the holders of Class A non-voting shares shall have the right to receive Class A non-voting shares and the holders of Common shares shall have the right to receive Common shares.

ISSUANCE OF CLASS A NON-VOTING SHARES

During the year ended February 2, 2013, there were no Class A non-voting shares issued as a result of the exercise of vested options arising from the Company's share option program (January 28, 2012 – 722,000). For the year ended January 28, 2012, the amounts credited to share capital from the exercise of share options include a cash consideration of $8,828, as well as an ascribed value from contributed surplus of $2,228.

PURCHASE OF SHARES FOR CANCELLATION

For the year ended February 2, 2013, the Company purchased, under the prior year's normal course issuer bid, 1,000,000 (January 28, 2012 – 1,445,000) Class A non-voting shares having a book value of $663 (January 28, 2012 – $780) for a total cash consideration of $12,615 (January 28, 2012 – $22,410). The excess of the purchase price over the book value of the shares in the amount of $11,952 (January 28, 2012 – $21,630) was charged to retained earnings.

In November 2012, the Company received approval from the Toronto Stock Exchange to proceed with a normal course issuer bid. Under the bid, the Company may purchase up to 2,557,275 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 15, 2012. The bid commenced on November 28, 2012 and may continue to November 27, 2013. No Class A non-voting shares were purchased under this new program.

ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

AOCI is comprised of the following:

	February 2, 2013	January 28, 2012
Net change in fair value of available-for-sale financial assets, net of taxes	**$ 8,665**	$ 8,737

DIVIDENDS

The following dividends were declared and paid by the Company:

	For the years ended	
	February 2, 2013	January 28, 2012
Common shares and Class A non-voting shares	**$ 52,068**	$ 52,654
Dividends per share	**$ 0.80**	$ 0.80

17 SHARE-BASED PAYMENTS

A) DESCRIPTION OF THE SHARE-BASED PAYMENT ARRANGEMENTS

The Company has a share option plan that provides that up to 10% of the Class A non-voting shares outstanding, from time to time, may be issued pursuant to the exercise of options granted under the plan to key management and employees. The granting of options and the related vesting period, which is normally up to 5 years, are at the discretion of the Board of Directors and the options have a maximum term of 10 years. The exercise price payable for each Class A non-voting share covered by a share option is determined by the Board of Directors at the date of grant, but may not be less than the closing price of the Company's shares on the trading day immediately preceding the effective date of the grant.

B) DISCLOSURE OF EQUITY-SETTLED SHARE OPTION PLAN

Changes in outstanding share options were as follows:

	For the years ended			
	February 2, 2013		January 28, 2012	
	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price
Outstanding, at beginning of year	**1,945**	**$ 15.07**	3,095	$ 14.58
Granted	**790**	**14.28**	–	–
Exercised	**–**	**–**	(722)	12.23
Forfeited	**(160)**	**14.50**	(428)	16.33
Expired	**(155)**	**20.00**	–	–
Outstanding, at end of year	**2,420**	**$ 14.53**	1,945	$ 15.07
Options exercisable, at end of year	**964**	**$ 14.78**	238	$ 18.81

For the year ended February 2, 2013, no share options were exercised. The weighted average share price at the date of exercise for share options exercised in the year ended January 28, 2012 was $15.44.

For the year ended February 2, 2013, the Company granted 790,000 share options (2012 – nil), the cost of which will be expensed over their vesting period based on their estimated fair values on the date of the grant, determined using the Black Scholes option pricing model. Compensation cost related to share option awards granted during the year ended February 2, 2013 under the fair value based approach was calculated using the following assumptions:

	For the year ended February 2, 2013		
	590 Options Granted May 30, 2012	100 Options Granted August 29, 2012	100 Options Granted December 11, 2012
Expected option life	6.4 years	6.1 years	5.8 years
Weighted average risk-free interest rate	1.91%	1.40%	1.47%
Expected stock price volatility	32.70%	32.80%	32.70%
Average dividend yield	5.33%	6.34%	6.85%
Weighted average fair value of options granted	$ 2.70	$ 1.86	$ 1.66
Share price at grant date	$ 15.00	$ 12.62	$ 11.68

The following table summarizes information about share options outstanding at February 2, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (in 000's)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable (in 000's)	Weighted Average Exercise Price
$11.68 – $12.62	200	9.00 years	$ 12.15	–	$ –
$14.50 – $15.00	2,105	5.40	14.64	858	14.56
$15.90 – $18.26	115	1.39	16.75	106	16.62
	2,420	**5.51 years**	**$ 14.53**	**964**	**$ 14.78**

C) EMPLOYEE EXPENSE

For the year ended February 2, 2013, the Company recognized compensation costs of $1,363 relating to share-based payment arrangements ($1,120 for the year ended January 28, 2012), with a corresponding credit to contributed surplus.

18 COMMITMENTS

As at February 2, 2013, financial commitments for minimum lease payments under operating leases for retail stores, offices, automobiles and equipment, as well as amounts pertaining to agreements to purchase goods or services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs are payable as follows:

	Store and Office Operating Leases	Purchase Obligations	Other Operating Leases	Total
Within 1 year	$ 100,972	$ 80,938	$ 4,590	$ 186,500
Within 2 years	91,846	117	3,598	95,561
Within 3 years	80,794	–	3,343	84,137
Within 4 years	64,789	–	24	64,813
Within 5 years	48,566	–	1	48,567
Subsequent years	96,229	–	–	96,229
Total	**$ 483,196**	**$ 81,055**	**$ 11,556**	**$ 575,807**

The Company leases retail stores and offices under operating leases. The Company does not sublet any of its leased properties. The leases have varying terms, escalation clauses and renewal rights. Generally, the leases run for a period that does not exceed 10 years, with options to renew that do not exceed 5 years, if at all. The majority of the leases require additional payments for the cost of insurance, taxes, maintenance and utilities. Certain rental agreements include contingent rent, which is generally based on revenue exceeding a minimum amount.

For the year ended February 2, 2013, $179,423 was recognized as an expense in net earnings with respect to operating leases ($181,998 for the year ended January 28, 2012), of which $176,948 ($179,149 for the year ended January 28, 2012) represents minimum lease payments and additional rent charges and $2,475 ($2,849 for the year ended January 28, 2012) represents contingent rents.

19 FINANCE INCOME AND FINANCE COSTS

RECOGNIZED IN NET EARNINGS

	For the years ended	
	February 2, 2013	January 28, 2012
Dividend income from available-for-sale financial assets	**$ 3,526**	$ 3,462
Interest income from loans and receivables	**1,062**	1,367
Net change in fair value of derivatives (note 6)	**1,036**	–
Foreign exchange gain	**–**	733
Finance income	**5,624**	5,562
Interest expense – mortgage	**592**	682
Net change in fair value of derivatives (note 6)	**–**	754
Impairment loss on available-for-sale financial assets	**156**	73
Foreign exchange loss	**582**	–
Finance costs	**1,330**	1,509
Net finance income recognized in net earnings	**$ 4,294**	$ 4,053

RECOGNIZED IN OTHER COMPREHENSIVE INCOME

	For the years ended	
	February 2, 2013	January 28, 2012
Net change in fair value of available-for-sale financial assets arising during the year (net of tax of $25; 2012 – $79)	**$ (207)**	$ 530
Finance (cost) income recognized in other comprehensive income (net of tax)	**$ (207)**	$ 530

20 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on net earnings for the year ended February 2, 2013 of $26,619 ($47,539 for the year ended January 28, 2012).

The number of shares (in thousands) used in the earnings per share calculation is as follows:

	For the years ended	
	February 2, 2013	January 28, 2012
Weighted average number of shares per basic earnings per share calculations	**65,188**	65,975
Effect of dilutive share options outstanding	**–**	126
Weighted average number of shares per diluted earnings per share calculations	**65,188**	66,101

As at February 2, 2013, a total of 2,420,000 (January 28, 2012 – 1,945,000) share options were excluded from the calculation of diluted earnings per share as these options were deemed to be anti-dilutive, because the exercise prices were greater than the average market price of the shares during the year.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

21 RELATED PARTIES

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Only members of the Board of Directors are deemed to be key management personnel. It is the Board of Directors who has the responsibility for planning, directing and controlling the activities of the Company. The Directors participate in the share option plan, as described in note 17. Compensation expense for key management personnel is as follows:

	For the years ended	
	February 2, 2013	**January 28, 2012**
Salaries and short-term benefits	**$ 1,944**	$ 2,088
Post-employment benefits	**(5)**	(63)
Share-based compensation costs	**595**	190
	$ 2,534	$ 2,215

OTHER RELATED-PARTY TRANSACTIONS

The Company leases two retail locations which are owned by companies controlled by the major shareholders of the Company. For the year ended February 2, 2013, the rent expense under these leases was, in the aggregate, approximately $195 (January 28, 2012 – $198).

The Company incurred $670 in the year ended February 2, 2013 (January 28, 2012 – $584) with professional service firms connected to outside directors of the Company for fees in conjunction with general legal advice and other consultation.

These transactions are recorded at the amount of consideration paid as established and agreed to by the related parties.

22 PERSONNEL EXPENSES

	For the years ended	
	February 2, 2013	**January 28, 2012**
Wages, salaries and employee benefits	**$ 255,387**	$ 248,208
Expenses related to defined benefit plans	**1,345**	1,490
Share-based compensation costs	**1,363**	1,120
	$ 258,095	$ 250,818

23 CREDIT FACILITY

At February 2, 2013, the Company had unsecured operating lines of credit available with Canadian chartered banks to a maximum of $125,000 or its US dollar equivalent. As at February 2, 2013, $46,792 (January 28, 2012 – $52,187) of the operating lines of credit were committed for documentary and standby letters of credit.

24 GUARANTEES

The Company has granted irrevocable standby letters of credit, issued by highly-rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at February 2, 2013, the maximum potential liability under these guarantees was $5,014 (January 28, 2012 – $5,083). The standby letters of credit mature at various dates during year ending February 1, 2014. The contingent portion of the guarantee is recorded when the Company considers it probable that a payment relating to the guarantee has to be made to the other party of the contract or guarantee. The Company has recorded no liability with respect to these guarantees as the Company does not expect to make any payments for these items. Management believes that the fair value of the non-contingent obligations requiring performance under the guarantees in the event that specified triggering events or conditions occur approximates the cost of obtaining the standby letters of credit.

25 SUPPLEMENTARY CASH FLOW INFORMATION

	February 2, 2013	January 28, 2012
Non-cash transactions:		
Additions to property and equipment and intangible assets included in trade and other payables	**$ 1,327**	$ 3,028
Ascribed value credited to share capital from exercise of share options	**$ –**	$ 2,228

26 FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Disclosures relating to the Company's exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk are provided below.

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, marketable securities, trade and other receivables and foreign currency option contracts. The Company limits its exposure to credit risk with respect to cash and cash equivalents by investing available cash in short-term deposits with Canadian financial institutions and commercial paper with a rating not less than R1. Marketable securities consist primarily of preferred shares of highly-rated Canadian public companies. The Company's trade and other receivables consist primarily of credit card receivables from the last few days of the fiscal year, which are settled within the first days of the next fiscal year.

As at February 2, 2013, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$ 97,626
Marketable securities	71,630
Trade and other receivables	3,600
	$ 172,856

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of trade and other payables is within six months. As at February 2, 2013, the Company had a high degree of liquidity with $169,256 in cash and cash equivalents, and marketable securities. In addition, the Company has unsecured credit facilities of $125,000 subject to annual renewals. The Company has financed its store expansion through internally-generated funds and its unsecured credit facilities are used to finance seasonal working capital requirements for US dollar merchandise purchases. The Company's long-term debt consists of a mortgage bearing interest at 6.40%, due November 2017, which is secured by the Company's distribution centre.

FOREIGN CURRENCY RISK

The Company purchases a significant amount of its merchandise with US dollars and as such significant volatility in the US dollar vis-à-vis the Canadian dollar can have an adverse impact on the Company's gross margin. The Company has a variety of alternatives that it considers to manage its foreign currency exposure on cash flows related to these purchases. This includes, but is not limited to, various styles of foreign currency option or forward contracts, not to exceed six months, and spot rate purchases. A foreign currency option contract represents an option or obligation to buy a foreign currency from a counterparty. Credit risks exist in the event of failure by a counterparty to fulfill its obligations. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian financial institutions. For the year ended February 2, 2013, the Company satisfied its US dollar requirements primarily through spot rate purchases and foreign exchange option contracts.

The Company has performed a sensitivity analysis on its US dollar denominated financial instruments, which consist principally of cash and cash equivalents of $40,939 and trade payables of $19,600 to determine how a change in the US dollar exchange rate would impact net earnings. On February 2, 2013, a 1% rise or fall in the Canadian dollar against the US dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $161 decrease or increase, respectively, in the Company's net earnings for the year ended February 2, 2013.

The Company has performed a sensitivity analysis on its derivative financial instruments, a series of call and put options on US dollars, to determine how a change in the US dollar exchange rate would impact net earnings. On February 2, 2013, a 1% rise or fall in the Canadian dollar against the US dollar, assuming that all other variables had remained the same, would have resulted in a $302 decrease or a $267 increase, respectively, in the Company's net earnings for the year ended February 2, 2013.

INTEREST RATE RISK

Interest rate risk exists in relation to the Company's cash and cash equivalents, defined benefit pension plan and SERP. Market fluctuations in interest rates impacts the Company's earnings with respect to interest earned on cash and cash equivalents that are invested in short term deposits with major Canadian financial institutions and commercial paper with a rating not less than R1. Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuation may have a material adverse effect on the funded status of the retirement benefit plans and on the Company's results of operations. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $125,000 or its US dollar equivalent that it utilizes for documentary and standby letters of credit, and the Company funds the drawings on these facilities as the payments are due.

The Company has performed a sensitivity analysis on interest rate risk at February 2, 2013 to determine how a change in interest rates would impact equity and net earnings. For the year ended February 2, 2013, the Company earned interest income of $1,062 on its cash and cash equivalents. An increase or decrease of 25 basis points in the average interest rate earned during the year would have increased equity and net earnings by $249 or decreased equity and net earnings by $182, respectively. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The Company has performed a sensitivity analysis at February 2, 2013 to determine how a change in interest rates, in relation to the Company's retirement benefit plans, would impact the benefit costs included in other comprehensive income. A one percentage point decrease in the year-end discount rate would have resulted in an increase of approximately $3,674 in benefit costs included in other comprehensive income for the year ended February 2, 2013, whereas a one percentage point increase would have resulted in a decrease of approximately $3,212. The Company's expected long-term rate of return on Plan assets reflects management's view of long-term investment returns. The effect of a 1% variation in such rate of return would have a nominal impact on the total benefit costs included in net earnings and total comprehensive income.

EQUITY PRICE RISK

Equity price risk arises from available-for-sale equity securities. The Company monitors the mix of equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Chief Executive Officer.

The Company has performed a sensitivity analysis on equity price risk at February 2, 2013, to determine how a change in the market price of the Company's marketable securities would impact equity and other comprehensive income. The Company's equity investments consist principally of preferred shares of Canadian public companies. The Company believes that changes in interest rates influence the market price of these securities. A 5% increase or decrease in the market price of the securities at February 2, 2013, would result in a $3,147 increase or decrease, respectively, in equity and other comprehensive income for the year ended February 2, 2013. The Company's equity securities are subject to market risk and, as a result, the impact on equity and other comprehensive income may ultimately be greater than that indicated above.

27 CAPITAL MANAGEMENT

The Company's objectives in managing capital are:

- to ensure sufficient liquidity to enable the internal financing of capital projects thereby facilitating its expansion;
- to maintain a strong capital base so as to maintain investor, creditor and market confidence; and
- to provide an adequate return to shareholders.

The Company's capital is composed of long-term debt, including the current portion and shareholders' equity. The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for new store additions, existing store renovation projects and office and distribution centre improvements. The Company currently funds these requirements out of its internally-generated cash flows. The Company's long-term debt constitutes a mortgage on the distribution centre facility. The Company maintains unsecured operating lines of credit that it uses to satisfy commitments for US dollar denominated merchandise purchases. The Company does not have any long-term debt, other than the mortgage related to the distribution centre, and therefore net earnings generated from operations are available for reinvestment in the Company or distribution to the Company's shareholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year over year sustainable profitable growth. On a quarterly basis, the Board of Directors also reviews the level of dividends paid to the Company's shareholders and monitors the share repurchase program activities. The Company does not have a defined share repurchase plan and decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. The Company is not subject to any externally imposed capital requirements.

DIRECTORS
AND OFFICERS

DIRECTORS

David J. Kassie
Stephen J. Kauser
Samuel Minzberg
Daniel Rabinowicz
Jeremy H. Reitman
Stephen F. Reitman
Howard Stotland
John J. Swidler
Robert S. Vineberg

OFFICERS

CORPORATE

Jeremy H. Reitman
Chairman and Chief Executive Officer

Stephen F. Reitman
President and Chief Operating Officer

Brian Lindy, CPA, CA
Executive Vice-President

Eric Williams, CPA, CA
Vice-President – Finance and Chief Financial Officer

Henry Fiederer
Senior Vice-President

Diane Archibald
Vice-President – Store Design and Development

Nathalie Bélanger
Vice-President – eCommerce

Domenic Carbone
Vice-President – Distribution and Logistics

Claude Martineau
Vice-President – Information Technology

Alain Murad
Vice-President – Legal and Secretary

Isabelle Oliva
Vice-President – Human Resources

Diane Randolph
Vice-President – Chief Information Officer

Allen F. Rubin
Vice-President – Operations

Saul Schipper
Vice-President – Real Estate

Richard Wait, CPA, CGA
Vice-President – Comptroller

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President – Reitmans

Stephanie Bleau
Vice-President – Reitmans

Bruce MacKeracher
Vice-President – Reitmans

Stefanie Ravenda
Vice-President – Reitmans

Jacqueline Tardif
Vice-President – Reitmans

Cathy Cockerton
Vice-President – Smart Set

Sylvain Forest
Vice-President – Smart Set

Danielle Vallières
Vice-President – Smart Set

Valérie Vedrines
Vice-President – Smart Set

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Mimi Cohen
Vice-President – Thyme Maternity

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Une version française de ce rapport peut être obtenue en écrivant au secrétaire de
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