

# INTERIM REPORT

FOR THE NINE MONTHS ENDED OCTOBER 29, 2011

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

Sales for the nine months ended October 29, 2011 decreased 3.9% to \$759,443,000 as compared with \$790,286,000 for the nine months ended October 30, 2010. Same store sales decreased 5.2%. The Company's gross margin decreased from 67.7% to 65.7% for the nine months ended October 29, 2011. While the strength of the Canadian dollar in the nine months ended October 29, 2011 was favourable to the gross margin, this improvement was offset by a more promotional environment which negatively impacted gross margin. EBITDA<sup>1</sup> for the nine months ended October 29, 2011 decreased 29.7% to \$104,767,000 as compared with \$148,975,000 last year. Net earnings decreased 43.0% to \$42,865,000 or \$0.65 diluted earnings per share as compared with \$75,168,000 or \$1.11 diluted earnings per share last year.

Sales for the third quarter ended October 29, 2011 decreased 3.2% to \$254,072,000 as compared with \$262,515,000 for the third quarter ended October 30, 2010. Same store sales decreased by 5.8%. The Company's gross margin decreased from 66.2% to 65.8% for the third quarter ended October 29, 2011. While the strength of the Canadian dollar in the third quarter ended October 29, 2011 was favourable to the gross margin, this improvement was offset by a more promotional environment which negatively impacted gross margin. EBITDA for the third quarter ended October 29, 2011 decreased by \$11,566,000 or 26.6% to \$31,845,000 as compared with \$43,411,000 last year. Net earnings decreased 49.0% to \$10,561,000 or \$0.16 diluted earnings per share as compared to \$20,692,000 or \$0.31 diluted earnings per share for the same period last year.

On October 19, 2011 the Company announced its plan to close its 25 Cassis stores, primarily through conversion to other Company banners. In the third quarter ended October 29, 2011 the Company has recorded costs associated with store conversions and closures, primarily related to fixed asset impairment losses and employee severance costs, of \$5,100,000 (\$3,700,000 after tax).

During the third quarter, the Company opened 14 new stores, comprised of 5 Reitmans, 1 Smart Set, 1 RW&CO., 3 Thyme Maternity, 1 Cassis, 1 Penningtons and 2 Addition Elle. Four stores were closed, comprised of 2 Reitmans and 2 Penningtons. At October 29, 2011, there were 975 stores in operation, consisting of 366 Reitmans, 158 Smart Set, 68 RW&CO., 77 Thyme Maternity, 25 Cassis, 158 Penningtons and 123 Addition Elle, as compared with a total of 979 stores as at October 30, 2010.

Sales for the month of November (the four weeks ended November 26, 2011) decreased 2.2% with same store sales decreasing 2.3%.

At the Board of Directors meeting held on November 30, 2011, 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 January 26, 2012 to shareholders of record on January 6, 2012.

As previously reported, the Company received approval from the Toronto Stock Exchange to proceed with a normal course issuer bid, under which the Company may purchase up to 2,579,895 Class A non-voting shares, representing 5% of the issued and outstanding Class A non-voting shares as at November 14, 2011. The bid commenced on November 28, 2011 and may continue to November 27, 2012.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman  
Chairman and Chief Executive Officer

Montreal, November 30, 2011

## Highlights

Sales	<b>\$759,443,000</b>	-	<b>3.9%</b>
EBITDA <sup>1</sup>	<b>\$104,767,000</b>	-	<b>29.7%</b>
Pre-tax earnings	<b>\$59,172,000</b>	-	<b>44.8%</b>
Net earnings	<b>\$42,865,000</b>	-	<b>43.0%</b>
Earnings per share <sup>2</sup>	<b>\$0.65</b>	-	<b>41.4%</b>
Cash and investments	<b>\$229,108,000</b>	-	<b>15.2%</b>
Stores	<b>975</b>	-	<b>0.4%</b>

<sup>1</sup> These highlights include a reference to EBITDA, a non-GAAP financial measure. EBITDA is defined as earnings before income taxes, dividend income, interest income, impairment loss on available-for-sale financial assets, interest expense and depreciation, amortization and 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.

<sup>2</sup> Earnings per share on a fully diluted basis.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

For the periods ended October 29, 2011

## MD&A

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The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Reitmans (Canada) Limited ("Reitmans" or the "Company") should be read in conjunction with the unaudited interim condensed financial statements of Reitmans for the fiscal period ended October 29, 2011 and the audited financial statements for the fiscal year ended January 29, 2011 and the notes thereto which are available at [www.sedar.com](http://www.sedar.com). This MD&A is dated November 30, 2011.

Effective for the three months ended April 30, 2011, Reitmans began reporting its financial results in accordance with International Financial Reporting Standards ("IFRS"), including comparative information. As a result of the adoption of IFRS, a number of areas of financial reporting are impacted by the changeover to IFRS, which are highlighted in this MD&A under the heading "Transition to International Financial Reporting Standards" and in note 19 of the unaudited interim condensed financial statements.

All financial information contained in this MD&A and Reitmans' unaudited interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, IFRS 1 *First-time adoption of IFRS* and with the accounting policies the Company expects to adopt in its first annual IFRS January 28, 2012 financial statements. Those accounting policies are based on the IFRS and interpretations made by the International Financial Reporting Interpretations Committee ("IFRIC") that the Company expects to be applicable at that time. All amounts in this report are in Canadian dollars, unless otherwise noted. The unaudited interim condensed financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on November 30, 2011.

Additional information about Reitmans is available on the Company's website at [www.reitmans.ca](http://www.reitmans.ca) or on the SEDAR website at [www.sedar.com](http://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 EBITDA as a supplementary earnings measure, which is defined as earnings before income taxes, dividend income, interest income, impairment losses on available-for-sale financial assets, interest expense, depreciation, amortization and 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.

# Management's Discussion and Analysis

The following table reconciles EBITDA to earnings before income taxes disclosed in the unaudited interim condensed statements of earnings for the three and nine months ended October 29, 2011 and October 30, 2010:

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
<b>Earnings before income taxes</b>	<b>\$ 59,172,000</b>	\$ 107,184,000	<b>\$ 14,456,000</b>	\$ 29,626,000
Dividend income	<b>2,598,000</b>	1,941,000	<b>850,000</b>	655,000
Interest income	<b>948,000</b>	733,000	<b>336,000</b>	375,000
Impairment losses on available-for-sale financial assets	<b>73,000</b>	–	<b>73,000</b>	–
Interest expense	<b>520,000</b>	583,000	<b>168,000</b>	189,000
Depreciation, amortization and impairment losses	<b>48,548,000</b>	43,882,000	<b>18,334,000</b>	14,626,000
<b>EBITDA</b>	<b>\$ 104,767,000</b>	\$ 148,975,000	<b>\$ 31,845,000</b>	\$ 43,411,000

## CORPORATE OVERVIEW

Reitmans is a Canadian ladies' wear specialty apparel retailer. The Company has seven banners: Reitmans, Smart Set, RW & CO., Thyme Maternity, Cassis, Penningtons and Addition Elle. On October 19, 2011 the Company announced its intention to close the Cassis banner, comprising 25 stores, primarily through conversion to other Company banners. 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, strip plazas, retail power centres and on major shopping streets across Canada. The Company continues to grow all areas of its business by investing in stores, technology and people. The Company's growth has been driven by continuing 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 the third quarter ended October 29, 2011, the Company opened 10 Thyme Maternity boutiques in select Babies"R"Us locations in Canada, including access to e-commerce website shopping through the Babies"R"Us website. This new retail channel provides Thyme Maternity customers an easy and convenient offering in a 300 to 500 square foot environment.

## RETAIL BANNERS

	Number of stores at January 29, 2011	Q1		Q2		Q3		Number of stores at October 29, 2011	Number of stores at October 30, 2010
		Openings	Closings	Openings	Closings	Openings	Closings		
Reitmans	364	2	3	1	1	5	2	366	364
Smart Set	158	2	3	–	–	1	–	158	161
RW & CO.	67	–	–	–	–	1	–	68	68
Thyme Maternity <sup>1</sup>	75	1	3	3	2	3	–	77	76
Cassis	22	1	–	1	–	1	–	25	22
Penningtons	161	–	1	2	3	1	2	158	165
Addition Elle	121	2	1	–	1	2	–	123	123
<b>Total</b>	<b>968</b>	<b>8</b>	<b>11</b>	<b>7</b>	<b>7</b>	<b>14</b>	<b>4</b>	<b>975</b>	<b>979</b>

<sup>1</sup> Excludes 10 boutiques in Babies"R"Us locations

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.

# Management's Discussion and Analysis

On October 19, 2011 the Company announced its plan to close its 25 Cassis stores, primarily through conversion to other Company banners. The Company will refocus its sales and merchandising efforts by converting to other banners with a view to enhancing sales in these store locations. In the third quarter ended October 29, 2011 the Company has recorded costs associated with store conversions and closures, primarily related to fixed asset impairment losses and employee severance costs, of \$5,100,000 (\$3,700,000 after tax).

## **OPERATING RESULTS FOR THE NINE MONTHS ENDED OCTOBER 29, 2011 ("YEAR TO DATE FISCAL 2012") AND COMPARISON TO OPERATING RESULTS FOR THE NINE MONTHS ENDED OCTOBER 30, 2010 ("YEAR TO DATE FISCAL 2011")**

Sales for the year to date fiscal 2012 decreased 3.9% to \$759,443,000 as compared with \$790,286,000 for the year to date fiscal 2011. Same store sales decreased 5.2%. Sales continued to be soft into the third quarter of fiscal 2012 as consumer spending on apparel declined. Sales for the year to date fiscal 2012 as compared to year to date fiscal 2011 were impacted by weaker customer traffic as consumers were faced with higher personal debt levels, high commodity costs and concern over economic conditions. The Bank of Canada in its October 2011 Monetary Policy Report revised its projected growth for the economy downward for calendar 2011 and calendar 2012 reflecting the continued weakening of the economy.

Gross profit for the year to date fiscal 2012 decreased 6.7% to \$499,069,000 as compared with \$534,828,000 for the year to date fiscal 2011. The Company's gross margin of 65.7% for the year to date fiscal 2012 decreased as compared to 67.7% in the year to date fiscal 2011. The Canadian dollar showed continued volatility vis-à-vis the US dollar throughout the year to date fiscal 2012. Improvement in the gross margin attributable to the strength of the Canadian dollar in the year to date was offset by increased promotional activity. The average rate for a US dollar in the year to date fiscal 2012 was \$0.98 Canadian as compared to \$1.03 Canadian in the year to date fiscal 2011. Spot prices for \$1.00 US for the year to date fiscal 2012 ranged between a high of \$1.06 and a low of \$0.94 Canadian (\$1.08 and \$1.00 respectively for the year to date fiscal 2011). For year to date fiscal 2012, EBITDA decreased by \$44,208,000 or 29.7% to \$104,767,000 as compared with \$148,975,000 for the year to date fiscal 2011.

Selling and distribution expenses for the year to date fiscal 2012 increased 4.6% or \$17,908,000 to \$408,947,000 as compared with \$391,039,000 for the year to date fiscal 2011. This increase is primarily related to fixed asset impairment losses and employee severance costs related to the planned closure of the Cassis banner, increased wage costs at store level and head office, and increased investment in marketing and promotional activities.

Administrative expenses for the year to date fiscal 2012 decreased 15.2% or \$6,006,000 to \$33,527,000 as compared with \$39,533,000 for the year to date fiscal 2011. 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. The decrease in administrative expenses was mainly due to a reduction in the employee performance incentive plan expense for the year to date fiscal 2012.

Depreciation and amortization expense, which is included in selling and distribution expenses, and in administrative expenses, for the year to date fiscal 2012 was \$48,548,000 compared to \$43,882,000 for the year to date fiscal 2011. Included in the year to date fiscal 2012 amount is \$1,467,000 of write-offs as a result of closed and renovated stores and impairment losses related to property and equipment of \$5,063,000, the majority of which is related to the planned closure of the Cassis banner (\$1,117,000 and nil respectively in the year to date fiscal 2011).

Finance income for the year to date fiscal 2012 was \$3,546,000 as compared to \$3,511,000 for the year to date fiscal 2011. Dividend income for the year to date fiscal 2012 was \$2,598,000 as compared to \$1,941,000 for the year to date fiscal 2011, the increase being due to additional dividend income generated on securities purchased in December 2010. Interest income increased for the year to date fiscal 2012 to \$948,000 as compared to \$733,000 for the year to date fiscal 2011, despite slightly lower balances, due to improved rates of interest earned on short-term investments. In the year to date fiscal 2012 there was a foreign exchange loss of \$376,000, which is included in finance costs while in the year to date fiscal 2011 there was a foreign exchange gain of \$837,000 which was included in finance income. This foreign exchange variation is largely attributable to the impact of the fluctuation of the US dollar vis-à-vis the Canadian dollar with respect to US currency held by the Company.

Finance costs for the year to date fiscal 2012 were \$969,000 as compared to \$583,000 for the year to date fiscal 2011. Included in the year to date fiscal 2012 was a foreign exchange loss of \$376,000, largely attributable to the impact of the fluctuation of the US dollar vis-à-vis the Canadian dollar with respect to US currency held by the Company. Interest expense on long-term debt decreased to \$520,000 for the year to date fiscal 2012 from \$583,000 for the year to date fiscal 2011. This decrease reflects the continued repayment of the mortgage on the Company's distribution centre.

Income taxes for the year to date fiscal 2012 amounted to \$16,307,000, for an effective tax rate of 27.6%. For the year to date fiscal 2011, income taxes were \$32,016,000, for an effective tax rate of 29.9%. The reduction in the effective tax rate reflects the impact of changes in substantively enacted tax rates in various tax jurisdictions.

Net earnings for the year to date fiscal 2012 decreased 43.0% to \$42,865,000 (\$0.65 diluted earnings per share) as compared with \$75,168,000 (\$1.11 diluted earnings per share) for the year to date fiscal 2011.

# Management's Discussion and Analysis

The Company in its normal course of business makes long lead time commitments for a significant portion of its merchandise purchases, in some cases as long as eight months. In the year to date, these merchandise purchases, payable in US dollars, approximated \$194,000,000 US. 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 three months. Due to the strength of the Canadian dollar, the Company purchased US dollars at varying spot rates so as to satisfy its US dollar requirements through to the end of January 2012. The Company did not enter into any foreign exchange option contracts during the year to date.

## **OPERATING RESULTS FOR THE THREE MONTHS ENDED OCTOBER 29, 2011 ("THIRD QUARTER OF FISCAL 2012") AND COMPARISON TO OPERATING RESULTS FOR THE THREE MONTHS ENDED OCTOBER 30, 2010 ("THIRD QUARTER OF FISCAL 2011")**

Sales for the third quarter of fiscal 2012 decreased 3.2% to \$254,072,000 as compared with \$262,515,000 for the third quarter of fiscal 2011. Same store sales decreased by 5.8%. The third quarter of fiscal 2012 sales were disappointing, as the business felt the effects of consumers' restrained spending on apparel. The third quarter of fiscal 2012 was marked by weak customer traffic in both malls and retail power centres. Consumer confidence declined in October, the fifth decline in the last six months, its lowest level since May 2009. Concern over the global economic conditions continued to impact Canadian consumer buying behaviours as consumer confidence levels continued on a downward trend. The Bank of Canada in its October 2011 Monetary Policy Report revised its projected growth for the economy downward for calendar 2011 and calendar 2012 reflecting the continued weakening of the economy and diminished consumer confidence.

Gross profit for the third quarter of fiscal 2012 decreased 3.9% to \$167,090,000 as compared with \$173,800,000 for the third quarter of fiscal 2011. The Company's gross margin for the third quarter of fiscal 2012 decreased to 65.8% from 66.2% for the third quarter of fiscal 2011. The Canadian dollar showed continued volatility vis-à-vis the US dollar throughout the third quarter of fiscal 2012. Improvement in the gross margin attributable to the strength of the Canadian dollar in the third quarter of fiscal 2012 was offset by increased promotional activity. The average rate for a US dollar for the third quarter of fiscal 2012 was \$1.00 Canadian as compared to \$1.03 for the third quarter of fiscal 2011. Spot prices for \$1.00 US during the third quarter of fiscal 2012 ranged between a high of \$1.06 and a low of \$0.96 Canadian (\$1.06 and \$1.00 respectively during the third quarter of fiscal 2011). In the third quarter of fiscal 2012, EBITDA decreased by \$11,566,000 or 26.6% to \$31,845,000 as compared with \$43,411,000 for the third quarter of fiscal 2011.

Selling and distribution expenses for the third quarter of fiscal 2012 increased 8.6% or \$11,402,000 to \$144,125,000 as compared with \$132,723,000 for the third quarter of fiscal 2011. This increase is primarily related to fixed asset impairment losses and employee severance costs related to the planned closure of the Cassis banner, increased wage costs at store level and head office and increased investment in marketing and promotional activities.

Administrative expenses for the third quarter of fiscal 2012 decreased 6.8% or \$902,000 to \$12,356,000 as compared with \$13,258,000 for the third quarter of fiscal 2011. 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. The decrease in administrative expenses was mainly due to a reduction in the employee performance incentive plan expense for the third quarter of fiscal 2012.

Depreciation and amortization expense, which is included in selling and distribution expenses, and in administrative expenses, for the third quarter of fiscal 2012 was \$18,334,000 compared to \$14,626,000 for the third quarter of fiscal 2011. Included in the third quarter of fiscal 2012 was \$197,000 of write-offs as a result of closed and renovated stores and impairment losses related to property and equipment of \$4,000,000, the majority of which is related to the planned closure of the Cassis banner (\$322,000 and nil respectively in the third quarter of fiscal 2011).

Finance income for the third quarter of fiscal 2012 was \$4,088,000 as compared to \$1,996,000 for the third quarter of fiscal 2011. Dividend income for the third quarter of fiscal 2012 was \$850,000 as compared to \$655,000 for the third quarter of fiscal 2011. Interest income decreased for the third quarter of fiscal 2012 to \$336,000 as compared to \$375,000 for the third quarter of fiscal 2011 due to lower balances in short-term investments. Included in the third quarter of fiscal 2012 was a foreign exchange gain of \$2,902,000 as compared to \$966,000 for the third quarter of fiscal 2011, largely attributable to the impact of the fluctuation of the US dollar vis-à-vis the Canadian dollar with respect to US currency held by the Company.

Finance costs for the third quarter of fiscal 2012 were \$241,000 as compared to \$189,000 for the third quarter of fiscal 2011. Included in the third quarter of fiscal 2012 was interest on long-term debt of \$168,000 compared to \$189,000 for the third quarter of fiscal 2011. This decrease is primarily attributable to the continued repayment of the mortgage on the Company's distribution centre. Also included in the third quarter of fiscal 2012 was an impairment loss on available-for-sale financial assets of \$73,000.

Income taxes for the third quarter of fiscal 2012 amounted to \$3,895,000, for an effective tax rate of 26.9%. For the third quarter of fiscal 2011, income taxes were \$8,934,000, for an effective tax rate of 30.2%. The reduction in the effective tax rate reflects the impact of changes in substantively enacted tax rates in various tax jurisdictions.

Net earnings for the third quarter of fiscal 2012 decreased 49.0% to \$10,561,000 (\$0.16 diluted earnings per share) as compared with \$20,692,000 (\$0.31 diluted earnings per share) for the third quarter of fiscal 2011.

# Management's Discussion and Analysis

The Company in its normal course of business makes long lead time commitments for a significant portion of its merchandise purchases, in some cases as long as eight months. In the third quarter, these merchandise purchases, payable in US dollars, approximated \$76,000,000 US. 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 three months. Due to the strength of the Canadian dollar, the Company purchased US dollars at varying spot rates so as to satisfy its US dollar requirements through to the end of January 2012. The Company did not enter into any foreign exchange option contracts during the third quarter of fiscal 2012.

## SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected financial data for the eight most recently completed quarters. This unaudited quarterly information has been prepared under IFRS except as noted.

	Sales	Net Earnings	Earnings per Share	
			Basic	Diluted
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
January 29, 2011	268,714,000	13,817,000	0.21	0.21
October 30, 2010	262,515,000	20,692,000	0.31	0.31
July 31, 2010	292,026,000	38,706,000	0.58	0.57
May 1, 2010	235,745,000	15,770,000	0.23	0.23
January 30, 2010 <sup>1</sup>	268,120,000	14,088,000	0.21	0.21

<sup>1</sup> The selected information that is presented is reported under previous Canadian GAAP and does not reflect the impact of the adoption of IFRS.

The retail business is seasonal and results of operations for any interim period are not necessarily indicative of the results of operations for the full fiscal year.

## BALANCE SHEET

### COMPARISON OF FINANCIAL POSITION AS AT OCTOBER 29, 2011 WITH THE FINANCIAL POSITION AS AT JANUARY 29, 2011

Cash and cash equivalents amounted to \$159,309,000 or 30.7% lower than \$230,034,000 as at January 29, 2011. The reduction in cash and cash equivalents of \$70,725,000 was mainly attributable to reduced cash generated from operations due to lower sales in the year to date fiscal 2012. Marketable securities held by the Company consist primarily of preferred shares of Canadian public companies. At October 29, 2011, marketable securities (reported at fair value) amounted to \$69,799,000 as compared with \$70,413,000 as at January 29, 2011. 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 bank bearer deposit notes and bank term deposits with major Canadian chartered banks and commercial paper rated not less than R1.

Trade and other receivables were \$3,516,000 or \$650,000 higher than as at January 29, 2011. The Company's trade and other receivables are essentially the credit card sales from the last few days of the fiscal quarter. Income taxes recoverable were \$7,396,000 as compared to income taxes payable of \$5,998,000 as at January 29, 2011 attributable to instalments in excess of estimated tax liabilities. Inventories were \$107,591,000 or \$34,390,000 higher than as at January 29, 2011, reflecting the planned build-up of merchandise inventory for the holiday selling season and softer sales of fall merchandise in the third quarter of fiscal 2012. Traditionally, the highest levels of inventory on a quarterly basis occur at the end of the first quarter and the third quarter of any given fiscal year in preparation for the summer and the holiday selling seasons, respectively. Prepaid expenses were \$13,964,000 or \$1,473,000 higher than as at January 29, 2011, principally due to the timing of payment of various prepaid items such as insurance and maintenance contracts.

The Company invested \$43,223,000 in additions to property and equipment and intangibles in the year to date fiscal 2012. This included \$31,598,000 in new store construction and existing store renovation costs and \$11,625,000 mainly related to information technology system hardware and software enhancements. The Company has embarked on a significant upgrade to its merchandising and supply chain operations, 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 system maintenance and upgrades. The total project, which is being phased in through to completion in fiscal 2013, is estimated to cost approximately \$16,000,000.

Total trade and other payables were \$76,852,000, or \$2,579,000 higher than as at January 29, 2011 due mainly to higher trade payables related to the build-up of inventories in the quarter offset by a significantly lower employee performance incentive plan accrual. The Company's trade and other payables consist largely of trade payables, personnel liabilities, payables relating to premises and sales tax liabilities.



# Management's Discussion and Analysis

Deferred revenue consists of unredeemed gift cards and loyalty points and awards granted under customer loyalty programs. Revenue is recognized when the gift cards, loyalty points and awards are redeemed.

Pension liability as at October 29, 2011 was \$13,948,000 compared to \$13,626,000 as at January 29, 2011. The increase is due to an amount of \$1,138,000 being expensed in the year to date fiscal 2012 while pension contributions paid in the year to date fiscal 2012 were \$816,000, including a required funding contribution in the third quarter of fiscal 2012 of \$354,000.

The Company maintains a contributory defined benefit pension plan ("Plan"). An actuarial valuation for funding purposes was performed as at December 31, 2010. This valuation indicated an unfunded solvency liability for the Plan primarily due to investment losses and the impact of a reduction in the discount rate. 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 assumption used in the calculation of net periodic benefit costs applicable to the fair value of 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.

## **COMPARISON OF FINANCIAL POSITION AS AT OCTOBER 29, 2011 WITH THE FINANCIAL POSITION AS AT OCTOBER 30, 2010**

Cash and cash equivalents amounted to \$159,309,000 or 27.2% lower than \$218,944,000 as at October 30, 2010. The reduction in cash and cash equivalents of \$59,635,000 was mainly attributable to the purchase of securities in the fourth quarter of fiscal 2011, the purchase of shares under a normal course issuer bid combined with reduced cash generated from operations. Marketable securities held by the Company consist primarily of preferred shares of Canadian public companies. At October 29, 2011, marketable securities (reported at fair value) amounted to \$69,799,000 as compared with \$51,345,000 as at October 30, 2010, the increase largely attributable to the purchase of securities in the fourth quarter of fiscal 2011 having a market value of \$20,436,000 at October 29, 2011. 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 bank bearer deposit notes and bank term deposits with major Canadian chartered banks and commercial paper rated not less than R1.

Trade and other receivables were \$3,516,000 or \$106,000 lower than as at October 30, 2010. The Company's trade and other receivables are essentially the credit card sales from the last few days of the fiscal quarter. Income taxes recoverable were \$7,396,000 as compared to income taxes payable of \$7,711,000 as at October 30, 2010 attributable to instalments in excess of estimated tax liabilities. Inventories this year were \$107,591,000 or \$13,513,000 higher than as at October 30, 2010, primarily attributable to softer sales in the third quarter of fiscal 2012 and earlier receipt of holiday merchandise. Prepaid expenses were \$13,964,000 or \$869,000 higher than as at October 30, 2010, principally due to the timing of payment of various prepaid items such as insurance and maintenance contracts.

The Company invested \$43,223,000 in additions to property and equipment, and intangibles in the year to date fiscal 2012 compared to \$40,457,000 invested in the year to date fiscal 2011. This included \$31,598,000 (October 30, 2010 - \$33,450,000) in new store construction and existing store renovation costs and \$11,625,000 (October 30, 2010 - \$7,007,000) mainly related to information technology system hardware and software enhancements.

Total trade and other payables were \$76,852,000, or \$1,694,000 lower than as at October 30, 2010 due mainly to a lower employee performance incentive plan accrual. The Company's trade and other payables consist largely of trade payables, personnel liabilities, payables relating to premises and sales tax liabilities.

## **OPERATING RISK MANAGEMENT**

### **Economic Environment**

The Bank of Canada in its October 2011 Monetary Policy Report revised its projected growth for the economy in calendar 2011 downward from 2.8% projected in July to 2.1% and from 2.6% to 1.9% in 2012. This reflects the continued weakening of the economy and diminished consumer confidence. The Company believes that consumer demand will remain weak as consumers' confidence levels continue to be weak amid global uncertainty. 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.

# Management's Discussion and Analysis

## **Competitive Environment**

The 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 975 leased retail outlets operating under seven banners located across Canada. 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 future sales, which could have a significant effect on the Company's results of operations.

## **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. Any significant disruptions in the performance of these 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 85% of its merchandise, largely from China. In the third quarter of fiscal 2012, no supplier represented more than 8% 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.

Recent months have seen a reduction in the price of cotton albeit not to levels prior to calendar 2010. Record high prices for cotton in calendar 2010 and into 2011, an important component in clothing fabrication, along with a significant shortage of supply placed strains on certain product margins. A recent slowdown in demand has resulted in bringing cotton prices sharply lower over the past few months, however cotton prices remain higher than they have been over the past ten years. The Company continues to closely monitor this development in an effort to maintain its value pricing proposition.

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.

# Management's Discussion and Analysis

## FINANCIAL RISK MANAGEMENT

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk were provided in the Company's 2011 Annual Report and there have been no significant changes in the Company's risk exposures during the nine months ended October 29, 2011 with the exception of foreign currency risk as described below.

### 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 considers a combination of foreign exchange option contracts, not to exceed three months, and spot rate purchases to manage its foreign exchange exposure on cash flows related to these purchases. A foreign exchange option contract represents an option 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. Due to the strength of the Canadian dollar, the Company has purchased US dollars at varying spot rates so as to satisfy its US dollar requirements through to the end of January 2012.

As at October 29, 2011, October 30, 2010 and January 29, 2011, there were no outstanding foreign exchange option contracts.

The Company has performed a sensitivity analysis on its US dollar denominated financial instruments, which consisted as at October 29, 2011 principally of cash and cash equivalents of \$43,509,000 and trade payables of \$4,473,000 to determine how a change in the US dollar exchange rate would impact net earnings. On October 29, 2011, a 10% 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 \$2,805,000 decrease or increase, respectively, in the Company's net earnings for the three and nine months ended October 29, 2011.

## LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Shareholders' equity as at October 29, 2011 amounted to \$495,804,000 or \$7.62 per share (October 30, 2010 - \$511,094,000 or \$7.72 per share; January 29, 2011 - \$512,800,000 or \$7.73 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 \$229,108,000 (October 30, 2010 - \$270,289,000; January 29, 2011 - \$300,447,000). Cash is conservatively invested on a short-term basis in bank bearer deposit notes and bank 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 October 29, 2011, \$43,092,000 (October 30, 2010 - \$45,362,000; January 29, 2011 - \$60,888,000) 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 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 October 29, 2011, the maximum potential liability under these guarantees was \$5,010,000 (October 30, 2010 - \$5,063,000; January 29, 2011 - \$5,060,000). The standby letters of credit mature at various dates during fiscal 2013. 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 \$349,000 in the third quarter of fiscal 2012. The Company paid \$0.20 dividends per share totalling \$13,007,000 in the third quarter of fiscal 2012 compared to \$0.20 dividends per share totalling \$13,241,000 in the third quarter of fiscal 2011.

In the third quarter of fiscal 2012, the Company invested \$18,604,000 on new and renovated stores and information technology system enhancements. The Company has embarked on a significant upgrade to its merchandising and supply chain operations, 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 system maintenance and upgrades. The total project, which is being phased in through to completion in fiscal 2013, is estimated to cost approximately \$16,000,000. In the fiscal year ending January 28, 2012, the Company expects to invest approximately \$45,000,000 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 2011, are expected to be funded by the Company's existing financial resources and funds derived from its operations.

# Management's Discussion and Analysis

## FINANCIAL COMMITMENTS

The following table sets forth the Company's financial commitments, excluding trade and other payables, as at October 29, 2011, the details of which are described in the previous commentary.

<b>Contractual Obligations</b>	<b>Total</b>	<b>Within 1 year</b>	<b>2 to 4 years</b>	<b>5 years and over</b>
Store & office operating leases <sup>1</sup>	\$ 471,337,000	\$ 100,011,000	\$ 230,060,000	\$ 141,266,000
Purchase obligations <sup>2</sup>	83,668,000	83,154,000	514,000	–
Other operating leases <sup>3</sup>	14,801,000	4,456,000	9,161,000	1,184,000
Long-term debt	10,402,000	1,451,000	4,944,000	4,007,000
Interest on long-term debt	2,149,000	615,000	1,255,000	279,000
<b>Total contractual obligations</b>	<b>\$ 582,357,000</b>	<b>\$ 189,687,000</b>	<b>\$ 245,934,000</b>	<b>\$ 146,736,000</b>

<sup>1</sup> Represents the minimum lease payments under long-term leases for store locations and office space as at October 29, 2011.

<sup>2</sup> Includes amounts pertaining to agreements to purchase goods or services that are enforceable and legally binding on the Company.

<sup>3</sup> Includes lease payments for computer equipment, automobiles and office equipment.

## OUTSTANDING SHARE DATA

At November 30, 2011, 13,440,000 Common shares and 51,597,906 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 2,492,600 stock options outstanding at an average exercise price of \$14.45. Each stock 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.

In November 2011, 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 2,579,895 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 14, 2011. The average daily trading volume for the six month period preceding November 1, 2011 was 77,593 shares. In accordance with Toronto Stock Exchange rules, a maximum daily repurchase of 25% of this average may be made, representing 19,398 shares. The bid commenced on November 28, 2011 and may continue to November 27, 2012. The shares will be purchased on behalf of the Company by a registered broker through the facilities of the Toronto Stock Exchange or alternative Canadian trading platforms. The Company may also purchase Class A non-voting shares for cancellation by way of private agreements under an issuer bid exemption order issued by a securities regulatory authority. Purchases made by way of private agreements under an issuer bid exemption order issued by a securities regulatory authority will be at a discount to the prevailing market price as provided in the exemption order. The price paid for the shares will be the market price at the time of acquisition, and the number of shares purchased and the timing of any such purchases will be determined by the Company's management. All shares purchased by the Company will be cancelled. For the year to date fiscal 2012, the Company purchased, under the prior year's normal course issuer bid, 1,445,000 Class A non-voting shares having a book value of \$780,000 for a total cash consideration of \$22,410,000. The excess of the purchase price over book value of the shares in the amount of \$21,630,000 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 exchange option contracts with maturities not exceeding three months. Due to the strength of the Canadian dollar, the Company has purchased US dollars at varying spot rates so as to satisfy its US dollar requirements through to the end of January 2012.

A foreign exchange option contract represents an option 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. Foreign exchange option contracts are considered with maturities usually not exceeding three months. As at October 29, 2011, October 30, 2010 and January 29, 2011 the Company had no outstanding foreign exchange option contracts.

Included in the determination of the Company's net earnings for the three and nine months ended October 29, 2011 are foreign exchange gains of \$2,902,000 and losses of \$376,000 respectively (gains of \$966,000 and \$837,000 for three and nine months ended October 30, 2010 respectively).

# Management's Discussion and Analysis

## 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 10 to the unaudited interim condensed financial statements for the period ended October 29, 2011. The following is compensation expense for key management personnel:

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Salaries and short-term benefits	\$1,432,000	\$ 1,433,000	\$ 481,000	\$ 477,000
Post-employment benefits	(26,000)	134,000	(9,000)	45,000
Share-based compensation costs	144,000	152,000	48,000	51,000
	<b>\$1,550,000</b>	<b>\$ 1,719,000</b>	<b>\$ 520,000</b>	<b>\$ 573,000</b>

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 a company controlled by the major shareholders of the Company. The leases for such premises were entered into on commercial terms similar to those for leases entered into with third parties for similar premises. For the year to date, the rent expense under these leases was, in the aggregate, approximately \$149,000 (October 30, 2010 - \$149,000).

The Company incurred \$438,000 in the year to date (October 30, 2010 - \$530,000) with professional service firms connected to outside directors of the Company for fees in conjunction with general legal advice and other consultation. The Company believes that such remuneration was based on normal terms for business transactions between unrelated parties.

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 bank bearer deposit notes and bank 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

### Deferred Income Tax Assets

Management is required to make subjective assessments to determine the amount of deferred income tax assets to be recognized. Deferred income tax assets are recorded to the extent that it is probable that there will be adequate taxable income in the future against which they can be utilized.

### Pension Plans

The Company maintains a contributory, defined benefit plan and sponsors a 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, 2010, the defined benefit plan, despite being fully funded on a going concern basis, has a solvency deficiency. The Company has funded the required amounts as at October 29, 2011. The SERP is an unfunded pay as you go plan.

### Sales Returns

The Company provides for the possibility that merchandise already sold may be returned by customers. To this end, the Company has made certain assumptions based on the quantity of merchandise returned in the past.

# Management's Discussion and Analysis

## **Share-Based Compensation**

The Company accounts for share-based compensation and other share-based payments using the fair value method. Share options granted result in an expense over their vesting period based on their estimated fair values on the date of grant, determined using the Black-Scholes option pricing model. In computing the compensation cost related to share option awards granted during the period under the fair value approach, various assumptions are used to determine the expected option life, risk-free interest rate, expected stock price volatility and average dividend yield. The use of different assumptions could result in a share compensation expense that differs from that which the Company has recorded.

## **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 provision is taken using management's best estimate. In addition, a provision for shrinkage and sales returns are also recorded using historical rates experienced. Given that inventory and cost of sales are significant components of the 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 a significant subjective assessment, linking the possible loss of value of assets to future economic performance, to determine the amount of asset impairment that should be recognized.

## **Goodwill**

Goodwill is not amortized but rather is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If the Company determines in the future that impairment has occurred, the Company would be required to write-off the impaired portion of goodwill.

## **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 January 28, 2012 and have not been applied in preparing these unaudited interim condensed financial statements. New standards and amendments to standards and interpretations that impact the Company include:

### **IFRS 9 – Financial Instruments**

This standard becomes mandatory for the years commencing on or after January 1, 2013 with earlier application permitted. IFRS 9 is a new standard which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. The extent of the impact on the financial statements of the Company has not yet been determined.

### **IAS 1 – Presentation of Financial Statements**

On June 16, 2011 the IASB issued amendments to IAS 1, *Presentation of Financial Statements*. The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The extent of the impact on the financial statements of the Company has not yet been determined.

### **IAS 19 – Employee Benefits**

On June 16, 2011 the IASB revised IAS 19, *Employee Benefits*. The revisions 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 introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The extent of the impact on the financial statements of the Company has not yet been determined.

# Management's Discussion and Analysis

## **TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Canadian Accounting Standards Board requires that publicly accountable enterprises adopt IFRS, for interim and annual reporting purposes, beginning on or after January 1, 2011, which for the Company is the fiscal year ending January 28, 2012. The Company began reporting under IFRS for the quarter ended April 30, 2011 and has presented in its unaudited interim condensed financial statements information that conforms to IFRS for comparative periods.

Reconciliations prepared in accordance with IFRS 1, *First-Time Adoption of International Financial Reporting Standards* are provided in note 19 to the October 29, 2011 unaudited interim period condensed financial statements. The IFRS 1 reconciliations for the first quarter ended April 30, 2011, year ended January 29, 2011 and opening IFRS balance sheet as at January 31, 2010 are included in note 19 of the Company's Interim Report for the three months ended April 30, 2011.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Company has designed disclosure controls and procedures to provide reasonable assurance that material information related to the Company is included in the annual and quarterly filings. In addition, the Company evaluated the effectiveness of the disclosure controls and procedures as of January 29, 2011 and concluded that these controls were effective.

The Company, under the supervision of the Chief Executive Officer and Chief Financial Officer, has designed internal controls over financial reporting, as defined by *National Instrument 52-109*, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company evaluated the effectiveness of the internal controls over financial reporting as of January 29, 2011 and concluded that these controls were effective.

The Company's internal controls were not materially affected by the transition to IFRS. There have been no changes in the Company's internal controls over financial reporting during the nine months ended October 29, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **OUTLOOK**

Concern over the global economic conditions continued to impact Canadian consumer buying behaviours as consumer confidence levels continued on a downward trend. The Bank of Canada in its October 2011 Monetary Policy Report revised its projected growth for the economy in calendar 2011 downward from 2.8% projected in July to 2.1% and from 2.6% to 1.9% in 2012. This reflects the continued weakening of the economy and diminished consumer confidence. The strength of the Canadian dollar favours importers, however it creates a drag on the economic activity of other sectors in Canada. The apparel marketplace has been faced with rising cotton prices. The price of cotton, an important component in clothing fabrication, had risen to record high prices and along with a significant shortage of supply has placed strains on certain product margins. A slowdown in demand, primarily due to the economic uncertainty in Europe, along with improved cotton harvests has resulted in bringing cotton prices sharply lower over the past few months, however cotton prices remain higher than they have been over the past ten years. The Company continues to closely monitor this development in an effort to maintain its value pricing proposition. We believe that we remain 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 has virtually no debt and has liquid cash reserves which provide us with 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's Hong Kong office continues to serve the Company well, with over 110 full-time employees dedicated to seeking out the highest quality, affordable and fashionable apparel for all of our banners.

We believe that our merchandise offerings will continue to remain attractive values to the consumer. The Company has a strong balance sheet, with excellent liquidity and borrowing capacity. Its systems, including merchandise procurement, inventory control, planning, allocation and distribution, distribution centre management, point-of-sale, financial management and information technology are fully integrated. The Company is committed to continue to invest in training for all levels of its employees.

# Condensed Statements of Earnings

(Unaudited)

(in thousands of Canadian dollars except per share amounts)

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Sales	\$ 759,443	\$ 790,286	\$ 254,072	\$ 262,515
Cost of goods sold (note 5)	260,374	255,458	86,982	88,715
Gross profit	499,069	534,828	167,090	173,800
Selling and distribution expenses	408,947	391,039	144,125	132,723
Administrative expenses	33,527	39,533	12,356	13,258
Results from operating activities	56,595	104,256	10,609	27,819
Finance income (note 16)	3,546	3,511	4,088	1,996
Finance costs (note 16)	969	583	241	189
Earnings before income taxes <sup>1</sup>	59,172	107,184	14,456	29,626
Income taxes	16,307	32,016	3,895	8,934
Net earnings	\$ 42,865	\$ 75,168	\$ 10,561	\$ 20,692
Earnings per share (note 11):				
Basic	\$ 0.65	\$ 1.12	\$ 0.16	\$ 0.31
Diluted	0.65	1.11	0.16	0.31

The accompanying notes are an integral part of these unaudited interim condensed financial statements.

<sup>1</sup> A reconciliation of earnings before income taxes to earnings before income taxes, dividend income, interest income, impairment loss on available-for-sale financial assets, interest expense and depreciation, amortization and impairment losses ("EBITDA") is as follows:

Earnings before income taxes	\$ 59,172	\$ 107,184	\$ 14,456	\$ 29,626
Dividend income	2,598	1,941	850	655
Interest income	948	733	336	375
Impairment loss on available-for-sale financial assets	73	–	73	–
Interest expense	520	583	168	189
Depreciation, amortization and impairment losses	48,548	43,882	18,334	14,626
EBITDA	\$ 104,767	\$ 148,975	\$ 31,845	\$ 43,411

# Condensed Statements of Comprehensive Income

(Unaudited)

(in thousands of Canadian dollars)

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Net earnings	\$ 42,865	\$ 75,168	\$ 10,561	\$ 20,692
Other comprehensive income:				
Net unrealized (loss) gain on available-for-sale financial assets arising during the period (net of tax of \$121 for the nine months and \$246 for the three months ended October 29, 2011; \$394 for the nine months and \$250 for the three months ended October 30, 2010)	(808)	2,643	(1,647)	1,674
Reclassification of impairment loss on available-for-sale financial assets to net earnings (net of tax of \$9)	64	–	64	–
Total comprehensive income	\$ 42,121	\$ 77,811	\$ 8,978	\$ 22,366

The accompanying notes are an integral part of these unaudited interim condensed financial statements.



# Condensed Balance Sheets

(Unaudited)  
(in thousands of Canadian dollars)

October 29, 2011    October 30, 2010    January 29, 2011

	October 29, 2011	October 30, 2010	January 29, 2011
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (note 15)	\$ 159,309	\$ 218,944	\$ 230,034
Marketable securities	69,799	51,345	70,413
Trade and other receivables	3,516	3,622	2,866
Income taxes recoverable	7,396	–	–
Inventories	107,591	94,078	73,201
Prepaid expenses	13,964	13,095	12,491
<b>Total Current Assets</b>	<b>361,575</b>	<b>381,084</b>	<b>389,005</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment	184,666	202,379	193,064
Intangibles	15,962	11,740	13,841
Goodwill	42,426	42,426	42,426
Deferred income taxes	22,492	20,937	21,021
<b>Total Non-Current Assets</b>	<b>265,546</b>	<b>277,482</b>	<b>270,352</b>
<b>TOTAL ASSETS</b>	<b>\$ 627,121</b>	<b>\$ 658,566</b>	<b>\$ 659,357</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables (note 6)	\$ 65,830	\$ 68,617	\$ 64,093
Deferred revenue (note 7)	9,279	14,768	19,834
Income taxes payable	–	7,711	5,998
Current portion of long-term debt (note 8)	1,451	1,363	1,384
<b>Total Current Liabilities</b>	<b>76,560</b>	<b>92,459</b>	<b>91,309</b>
<b>NON-CURRENT LIABILITIES</b>			
Other payables (note 6)	11,022	9,929	10,180
Deferred revenue (note 7)	2,323	2,677	2,384
Deferred lease credits	18,513	19,591	19,011
Long-term debt (note 8)	8,951	10,402	10,047
Pension liability	13,948	12,414	13,626
<b>Total Non-Current Liabilities</b>	<b>54,757</b>	<b>55,013</b>	<b>55,248</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (note 9)	31,512	27,985	29,614
Contributed surplus	6,462	6,134	6,266
Retained earnings	451,208	468,977	469,554
Accumulated other comprehensive income (note 9)	6,622	7,998	7,366
<b>Total Shareholders' Equity</b>	<b>495,804</b>	<b>511,094</b>	<b>512,800</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 627,121</b>	<b>\$ 658,566</b>	<b>\$ 659,357</b>

Commitments (note 12)

The accompanying notes are an integral part of these unaudited interim condensed financial statements.

# Condensed Statements of Changes in Shareholders' Equity

(Unaudited)  
(in thousands of Canadian dollars)

	For the nine months ended	
	October 29, 2011	October 30, 2010
<b>SHARE CAPITAL</b>		
Balance, beginning of the period	\$ 29,614	\$ 25,888
Cash consideration on exercise of share options (note 9)	2,133	2,273
Ascribed value credited to share capital from exercise of share options (note 9)	545	555
Cancellation of shares pursuant to share repurchase program	(780)	(731)
Balance, end of the period	<b>31,512</b>	27,985
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of the period	6,266	5,164
Share-based compensation costs (note 10)	741	1,525
Ascribed value credited to share capital from exercise of share options (note 9)	(545)	(555)
Balance, end of the period	<b>6,462</b>	6,134
<b>RETAINED EARNINGS</b>		
Balance, beginning of the period	469,554	461,845
Net earnings	42,865	75,168
Dividends (note 9)	(39,581)	(38,655)
Premium on repurchase of Class A non-voting shares	(21,630)	(29,381)
Balance, end of the period	<b>451,208</b>	468,977
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>		
Balance, beginning of the period	7,366	5,355
Net unrealized (loss) gain on available-for-sale financial assets arising during the period (net of tax of \$121; \$394 for the nine months ended October 30, 2010)	(808)	2,643
Reclassification of impairment loss on available-for-sale financial assets to net earnings (net of tax of \$9)	64	-
Balance, end of the period	<b>6,622</b>	7,998
<b>Total Shareholders' Equity</b>	<b>\$ 495,804</b>	<b>\$ 511,094</b>

The accompanying notes are an integral part of these unaudited interim condensed financial statements.

# Condensed Statements of Cash Flows

(Unaudited)  
(in thousands of Canadian dollars)

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>				
Net earnings	\$ 42,865	\$ 75,168	\$ 10,561	\$ 20,692
Adjustments for:				
Depreciation, amortization and impairment losses	48,548	43,882	18,334	14,626
Share-based compensation costs	741	1,525	(153)	522
Amortization of deferred lease credits	(3,468)	(3,731)	(1,148)	(1,236)
Deferred lease credits	2,970	2,713	2,146	1,549
Pension contribution	(816)	(465)	(459)	(155)
Pension expense	1,138	1,014	380	338
Impairment loss on available-for-sale financial assets	73	-	73	-
Foreign exchange loss	2,793	358	342	198
Interest and dividend income, net	(3,024)	(2,091)	(1,016)	(841)
Interest paid	(522)	(583)	(170)	(189)
Interest received	969	770	336	344
Dividends received	2,592	1,817	866	651
Income taxes	16,307	32,016	3,895	8,934
	<b>111,166</b>	<b>152,393</b>	<b>33,987</b>	<b>45,433</b>
Changes in:				
Trade and other receivables	(665)	(609)	(809)	(1,005)
Inventories	(34,390)	(30,951)	(26,114)	(25,649)
Prepaid expenses	(1,473)	(2,085)	300	1,121
Trade and other payables	3,531	13,367	7,265	15,271
Deferred revenue	(10,616)	(1,191)	(5,066)	2,446
Cash generated from operating activities	<b>67,553</b>	<b>130,924</b>	<b>9,563</b>	<b>37,617</b>
Income taxes received	-	5,870	-	5,856
Income taxes paid	(31,060)	(37,870)	(3,546)	(8,529)
Net cash flows from operating activities	<b>36,493</b>	<b>98,924</b>	<b>6,017</b>	<b>34,944</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Purchases of marketable securities	(315)	(282)	(105)	(105)
Additions to property and equipment and intangibles	(43,223)	(40,457)	(18,604)	(16,514)
Cash flows used in investing activities	<b>(43,538)</b>	<b>(40,739)</b>	<b>(18,709)</b>	<b>(16,619)</b>
<b>CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES</b>				
Dividends paid	(39,581)	(38,655)	(13,007)	(13,241)
Purchase of Class A non-voting shares for cancellation	(22,410)	(30,112)	(22,410)	-
Repayment of long-term debt	(1,029)	(966)	(349)	(327)
Proceeds from exercise of share options	2,133	2,273	617	849
Cash flows used in financing activities	<b>(60,887)</b>	<b>(67,460)</b>	<b>(35,149)</b>	<b>(12,719)</b>
<b>FOREIGN EXCHANGE LOSS ON CASH HELD IN FOREIGN CURRENCY</b>				
	<b>(2,793)</b>	<b>(358)</b>	<b>(342)</b>	<b>(198)</b>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<b>(70,725)</b>	<b>(9,633)</b>	<b>(48,183)</b>	<b>5,408</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	<b>230,034</b>	<b>228,577</b>	<b>207,492</b>	<b>213,536</b>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<b>\$ 159,309</b>	<b>\$ 218,944</b>	<b>\$ 159,309</b>	<b>\$ 218,944</b>

Supplementary cash flow information (note 17)

The accompanying notes are an integral part of these unaudited interim condensed financial statements.

# Notes to the Interim Condensed Financial Statements

(Unaudited)

(all amounts in thousands of Canadian dollars except per share amounts)

# Notes

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## 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. The retail business is seasonal and the results of operations for any interim period are not necessarily indicative of the results of operation for the full fiscal year or any future period.

## 2. BASIS OF PRESENTATION

### a) Statement of Compliance

These unaudited interim condensed financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, IFRS 1, *First-time adoption of IFRS* and with the accounting policies the Company expects to adopt in its first annual IFRS January 28, 2012 financial statements. Those accounting policies are based on the IFRS and International Financial Reporting Interpretations Committee ("IFRIC") as issued by the International Accounting Standards Board ("IASB") that the Company expects to be applicable at that time. These unaudited interim condensed financial statements do not include all of the information required for full annual financial statements. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with IFRS were omitted or condensed where such information is not considered material to the understanding of the Company's interim financial statements.

The Company's financial statements were previously prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). An explanation of how the transition from Canadian GAAP to IFRS as at January 31, 2010 ("transition date") has affected the reported earnings, balance sheet and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS 1 is provided in the Company's report for the first quarter for the fiscal year ending January 28, 2012. An explanation of how the transition has affected the reported earnings, balance sheet and cash flows for the Company as at and for the period ended October 30, 2010 is provided in note 19.

These unaudited interim condensed financial statements were authorized for issue by the Board of Directors on November 30, 2011 and they should be read in conjunction with the Company's annual financial statements for the 52 week fiscal year ended January 29, 2011.

### b) Basis of Measurement

These unaudited interim condensed financial statements have been prepared on the historical cost basis except for:

- available-for-sale financial assets, measured at fair value through other comprehensive income; and
- the defined benefit liability 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.

### c) Functional and Presentation Currency

These unaudited interim condensed 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 thousands, except per share amounts.

### d) Estimates, Judgments and Assumptions

The preparation of the unaudited interim condensed financial statements in accordance with IAS 34 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 liabilities at the date of the 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.

# Notes to the Interim Condensed Financial Statements

In preparing these unaudited interim condensed financial statements, the nature of significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

Significant areas requiring the use of management estimates and assumptions include the key assumptions used in determining the useful life and recoverability of property and equipment and intangible assets, share-based compensation costs, assets and obligations related to employee pension benefits, deferred income tax assets, inventory valuation, sales returns and deferred revenues.

The following is a summary of areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements:

## **Deferred Income Tax Assets**

Management is required to make subjective assessments to determine the amount of deferred income tax assets to be recognized. Deferred income tax assets are recorded to the extent that it is probable that there will be adequate taxable income in the future against which they can be utilized.

## **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.

## **Sales Returns**

The Company provides for the possibility that merchandise already sold may be returned by customers. To this end, the Company has made certain assumptions based on the quantity of merchandise returned in the past.

## **Share-Based Compensation**

In computing the compensation cost related to share option awards under the fair value approach, various assumptions are used to determine the expected option life, risk-free interest rate, expected stock price volatility and average dividend yield. The use of different assumptions could result in a stock compensation expense that differs from that which the Company has recorded.

## **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.

## **Slow-Moving Inventory**

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 at a discount below cost.

## **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 a significant subjective assessment, linking the possible loss of value of assets to future economic performance, to determine the amount of asset impairment that should be recognized.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

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

### **a) 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.

# Notes to the Interim Condensed Financial Statements

## b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term deposits with original maturities of three months or less.

## c) Financial Instruments

All financial instruments are classified into one of the following five categories: financial assets 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 balance sheet and are measured at fair value with the exception of loans and receivables, held-to-maturity investments and other financial liabilities, which are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method, less impairment. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Financial instruments classified as financial assets at fair value through profit or loss are 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 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.

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. Trade and other payables and long-term debt have been classified as other financial liabilities and are measured at amortized cost.

The Company accounts for transactions 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.

Financial assets and liabilities are offset and the net amount is presented in the 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 as either assets or liabilities measured 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 exchange option contracts, with maturities not exceeding three months, to manage its US dollar exposure. Derivative financial instruments are not used for trading or speculative purposes.

## d) 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 at 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.

# Notes to the Interim Condensed Financial Statements

## e) 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 carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

## f) Intangible Assets

Intangible assets that are acquired by the Company and have finite useful lives are initially measured at cost. Following initial recognition, intangible assets 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.

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

Software	3 to 5 years
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Amortization methods, useful lives and residual value are reviewed at each annual reporting date and adjusted, prospectively, if appropriate.

## g) 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.

## h) 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, taking into consideration fluctuations of retail prices due to seasonality.

## i) 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 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 its related CGU that can be expected from the continued use of the asset or its related CGU and from its disposal at the end of its useful life. The fair value less costs to sell is the amount for which an asset or its related CGU can be sold in a transaction under normal market conditions between knowledgeable and willing contracting parties, less costs to sell.

# Notes to the Interim Condensed Financial Statements

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 that 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 equity 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.

## j) Employee Benefits

### i) Pension Benefit Plans

The Company maintains a contributory defined benefit plan that provides for pensions 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.
- Unrecognized past service costs related to benefits are amortized on a straight-line basis over the average period until vesting.

The Company recognizes all actuarial gains and losses from the defined benefit plan and SERP in other comprehensive income and expenses related to defined contribution plans in net earnings.

The Company has elected to recognize actuarial gains or losses in other comprehensive income in the periods in which they occur. Because the Company does not update its actuarial valuation at the end of the interim reporting period, there are no actuarial gains or losses to recognize during an interim period.

The difference between the cumulative amounts expensed and the funding contributions is recognized on the balance sheet as a pension asset or a pension liability, as the case may be.

### 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.



# Notes to the Interim Condensed Financial Statements

## 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 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.

## k) 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.

## l) 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.

## m) Finance Income and Finance Costs

Finance income comprises interest and dividend income, realized gains on sale of marketable securities as well as foreign exchange gains. Finance costs comprise interest expense, realized losses on sale of marketable securities 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 currency gains and losses are reported on a net basis.

## n) 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 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 set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

# Notes to the Interim Condensed Financial Statements

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 balance sheet under non-current assets or liabilities, irrespective of the expected date of realization or settlement.

## **o) 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.

## **p) 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.

## **q) 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 ending January 28, 2012 and have not been applied in preparing these unaudited interim condensed 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, 2013 with earlier application permitted. IFRS 9 is a new standard which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. The extent of the impact on the financial statements of the Company has not yet been determined.

### **IAS 1 – Presentation of Financial Statements**

On June 16, 2011 the IASB issued amendments to IAS 1, *Presentation of Financial Statements*. The amendments enhance the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. The amendments are effective for annual periods beginning on or after July 1, 2012. The extent of the impact on the financial statements of the Company has not yet been determined.

### **IAS 19 – Employee Benefits**

On June 16, 2011 the IASB revised IAS 19, *Employee Benefits*. The revisions 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 introduction of enhanced disclosures for defined benefit plans. The amendments are effective for annual periods beginning on or after January 1, 2013. The extent of the impact on the financial statements of the Company has not yet been determined.

## **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.

# Notes to the Interim Condensed Financial Statements

## 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. The fair value of cash and cash equivalents is measured using Level 2 inputs 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.

## 5. INVENTORIES

During the three months ended October 29, 2011, the Company recorded \$5,046 (October 30, 2010 - \$4,096) of write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous periods were reversed. The write-downs are included in cost of goods sold in the condensed statements of earnings.

## 6. TRADE AND OTHER PAYABLES

	October 29, 2011	October 30, 2010	January 29, 2011
Trade payables	\$ 26,703	\$ 21,038	\$ 16,457
Non-trade payables due to related parties	56	110	66
Other non-trade payables	13,345	16,055	12,663
Personnel liabilities	22,673	28,192	31,457
Payables relating to premises	14,075	13,151	13,630
	<b>76,852</b>	<b>78,546</b>	<b>74,273</b>
Less non-current portion	11,022	9,929	10,180
	<b>\$ 65,830</b>	<b>\$ 68,617</b>	<b>\$ 64,093</b>

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.

## 7. DEFERRED REVENUE

Deferred revenue consists of the following:

	October 29, 2011	October 30, 2010	January 29, 2011
Credit awards earned by customers or granted to them under loyalty programs	\$ 7,479	\$ 13,227	\$ 10,984
Unredeemed gift cards	4,123	4,218	11,234
	<b>11,602</b>	<b>17,445</b>	<b>22,218</b>
Less amounts expected to be redeemed in the next twelve months	9,279	14,768	19,834
	<b>\$ 2,323</b>	<b>\$ 2,677</b>	<b>\$ 2,384</b>

# Notes to the Interim Condensed Financial Statements

## 8. LONG-TERM DEBT

	October 29, 2011	October 30, 2010	January 29, 2011
Mortgage payable	\$ 10,402	\$ 11,765	\$ 11,431
Less current portion	1,451	1,363	1,384
	<b>\$ 8,951</b>	<b>\$ 10,402</b>	<b>\$ 10,047</b>

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 \$18,550 (October 30, 2010 - \$19,526; January 29, 2011 - \$19,282).

As at October 29, 2011, principal repayments on long-term debt are as follows:

Within 1 year	\$ 1,451
Within 2 years	1,545
Within 3 years	1,646
Within 4 years	1,753
Within 5 years	1,867
Subsequent years	2,140
	<b>\$ 10,402</b>

As at October 29, 2011, the fair value of long-term debt was \$11,069 (October 30, 2010 - \$12,031; January 29, 2011 - \$12,247) compared to its carrying value of \$10,402 (October 30, 2010 - \$11,765; January 29, 2011 - \$11,431).

## 9. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

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

	For the nine months ended		For the nine months ended		For the year ended	
	October 29, 2011	October 30, 2010	October 30, 2010	October 30, 2010	January 29, 2011	January 29, 2011
	Number of shares	Carrying amount	Number of shares	Carrying amount	Number of shares	Carrying amount
<b>Common shares</b>						
Balance at beginning and end of the period	13,440	\$ 482	13,440	\$ 482	13,440	\$ 482
<b>Class A non-voting shares</b>						
Balance at beginning of the period	52,869	\$ 29,132	54,160	\$ 25,406	54,160	\$ 25,406
Shares issued pursuant to exercise of share options	174	2,678	186	2,828	292	4,457
Shares purchased under issuer bid	(1,445)	(780)	(1,583)	(731)	(1,583)	(731)
Balance at end of the period	51,598	\$ 31,030	52,763	\$ 27,503	52,869	\$ 29,132
Total share capital	65,038	\$ 31,512	66,203	\$ 27,985	66,309	\$ 29,614

### 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.

# Notes to the Interim Condensed Financial Statements

## Issuance of Class A Non-Voting Shares

During the nine months ended October 29, 2011, a total of 174 (October 30, 2010 - 186) Class A non-voting shares were issued as a result of the exercise of vested options arising from the Company's share option program. The amounts credited to share capital from the exercise of share options include a cash consideration of \$2,133 (October 30, 2010 - \$2,273), as well as an ascribed value from contributed surplus of \$545 (October 30, 2010 - \$555).

## Purchase of Shares for Cancellation

For the nine months ended October 29, 2011, the Company purchased, under the prior year's normal course issuer bid, 1,445 Class A non-voting shares having a book value of \$780 for a total cash consideration of \$22,410. The excess of the purchase price over the book value of the shares in the amount of \$21,630 was charged to retained earnings.

In November 2011, 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 2,580 Class A non-voting shares of the Company, representing 5% of the issued and outstanding Class A non-voting shares as at November 14, 2011. The bid commenced on November 28, 2011 and may continue to November 27, 2012.

## Accumulated Other Comprehensive Income ("AOCI")

AOCI is comprised of the following:

	October 29, 2011	October 30, 2010	January 29, 2011
Net unrealized gains on available-for-sale financial assets, net of taxes	\$ 7,399	\$ 7,998	\$ 8,143
Defined benefit plan actuarial losses, net of taxes	(777)	-	(777)
	\$ 6,622	\$ 7,998	\$ 7,366

## Dividends

The following dividends were declared and paid by the Company:

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
\$0.20 per Common share and Class A non-voting share (October 30, 2010 - \$0.20)	\$ 39,581	\$ 38,655	\$ 13,007	\$ 13,241

## 10. 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 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.

# Notes to the Interim Condensed Financial Statements

## b) Disclosure of Share Option Program

Changes in outstanding share options were as follows:

	For the nine months ended				For the three months ended			
	October 29, 2011		October 30, 2010		October 29, 2011		October 30, 2010	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, at beginning of period	3,095	\$ 14.58	3,207	\$ 14.14	2,861	\$ 14.67	3,206	\$ 14.35
Granted	-	-	115	18.03	-	-	-	-
Exercised	(174)	12.23	(186)	12.23	(50)	12.23	(70)	12.23
Forfeited	(428)	16.33	-	-	(318)	16.82	-	-
Outstanding, at end of period	2,493	\$ 14.45	3,136	\$ 14.39	2,493	\$ 14.45	3,136	\$ 14.39
Options exercisable, at end of period	764	\$ 14.14	1,018	\$ 13.51	764	\$ 14.14	1,018	\$ 13.51

Of the options outstanding at October 29, 2011, a total of 480 are held by key management personnel (October 30, 2010 - 504).

## c) Employee Expense

For the three and nine months ended October 29, 2011, the Company recognized compensation costs of \$(153) and \$741 respectively relating to share-based awards (\$522 and \$1,525 for the three and nine months ended October 30, 2010), with a corresponding credit or debit to contributed surplus.

## 11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on net earnings for the three and nine months ended October 29, 2011 of \$10,561 and \$42,865 respectively (\$20,692 and \$75,168 for the three and nine months ended October 30, 2010).

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

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Weighted average number of shares per basic earnings per share calculations	66,218	66,954	65,877	66,168
Effect of dilutive share options outstanding	168	469	95	566
Weighted average number of shares per diluted earnings per share calculations	66,386	67,423	65,972	66,734

As at October 29, 2011, a total of 1,945 (October 30, 2010 - 273) share options were excluded from the calculation of diluted earnings per share for the three months ended October 29, 2011 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 quarter.

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.

# Notes to the Interim Condensed Financial Statements

## 12.COMMITMENTS

As at October 29, 2011, 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	Purchases Obligations	Other Operating Leases	Total
Within 1 year	\$ 100,011	\$ 83,154	\$ 4,456	\$ 187,621
Within 2 years	87,751	398	3,896	92,045
Within 3 years	76,948	116	2,809	79,873
Within 4 years	65,361	-	2,456	67,817
Within 5 years	51,365	-	1,184	52,549
Subsequent years	89,901	-	-	89,901
<b>Total</b>	<b>\$ 471,337</b>	<b>\$ 83,668</b>	<b>\$ 14,801</b>	<b>\$ 569,806</b>

The Company leases a number of retail stores and offices under operating leases. 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 are "net" leases, which 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 three and nine months ended October 29, 2011, amounts of \$45,354 and \$136,277 respectively were recognized as an expense in net earnings with respect to operating leases (\$45,613 and \$136,383 for the three and nine months ended October 30, 2010), of which \$44,689 and \$134,213 (\$45,027 and \$134,562 for the three and nine months ended October 30, 2010) represent minimum lease payments and \$665 and \$2,064 (\$586 and \$1,821 for the three and nine months ended October 30, 2010) represent contingent rents.

## 13.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 10. The following is compensation expense for key management personnel:

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Salaries and short-term benefits	\$ 1,432	\$ 1,433	\$ 481	\$ 477
Post-employment benefits	(26)	134	(9)	45
Share-based compensation costs	144	152	48	51
	<b>\$ 1,550</b>	<b>\$ 1,719</b>	<b>\$ 520</b>	<b>\$ 573</b>

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. The leases for such premises were entered into on commercial terms similar to those for leases entered into with third parties for similar premises. For the nine months ended October 29, 2011, the rent expense under these leases was, in the aggregate, approximately \$149 (October 30, 2010 - \$149).

The Company incurred \$438 in the nine months ended October 29, 2011 (October 30, 2010 - \$530) with professional service firms connected to outside directors of the Company for fees in conjunction with general legal advice and other consultation. The Company believes that such remuneration was based on normal terms for business transactions between unrelated parties.

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

# Notes to the Interim Condensed Financial Statements

## 14. PERSONNEL EXPENSES

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Wages, salaries and employee benefits	\$ 183,473	\$ 184,366	\$ 63,826	\$ 62,008
Expenses related to defined benefit plans	1,138	1,014	380	338
Share-based compensation costs	741	1,525	(153)	522
	\$ 185,352	\$ 186,905	\$ 64,053	\$ 62,868

## 15. CASH AND CASH EQUIVALENTS

	October 29, 2011	October 30, 2010	January 29, 2011
Cash on hand and with banks	\$ 7,311	\$ 5,117	\$ 4,634
Short-term deposits, bearing interest at 0.8% (October 30, 2010 - 0.9%; January 29, 2011 - 0.7%)	151,998	213,827	225,400
	\$ 159,309	\$ 218,944	\$ 230,034

## 16. FINANCE INCOME AND FINANCE COSTS

### Recognized in Net Earnings

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Dividend income from available-for-sale financial assets	\$ 2,598	\$ 1,941	\$ 850	\$ 655
Interest income from loans and receivables	948	733	336	375
Foreign exchange gain	-	837	2,902	966
Finance income	3,546	3,511	4,088	1,996
Interest expense – mortgage	520	583	168	189
Foreign exchange loss	376	-	-	-
Impairment loss on available-for-sale financial assets	73	-	73	-
Finance costs	969	583	241	189
Net finance income recognized in net earnings	\$ 2,577	\$ 2,928	\$ 3,847	\$ 1,807

### Recognized in Other Comprehensive Income

	For the nine months ended		For the three months ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Net unrealized (loss) gain on available-for-sale financial assets arising during the period (net of tax of \$121 for the nine months and \$246 for the three months ended October 29, 2011; \$394 for the nine months and \$250 for the three months ended October 30, 2010)	\$ (808)	\$ 2,643	\$ (1,647)	\$ 1,674
Finance income recognized in other comprehensive income (net of tax)	\$ (808)	\$ 2,643	\$ (1,647)	\$ 1,674



# Notes to the Interim Condensed Financial Statements

## 17. SUPPLEMENTARY CASH FLOW INFORMATION

October 29, 2011      October 30, 2010      January 29, 2011

### Non-cash transactions:

Additions of property and equipment and intangibles included in trade and other payables	\$ 1,867	\$ 626	\$ 2,819
Ascribed value credited to share capital from exercise of share options	545	555	888

## 18. FINANCIAL RISK MANAGEMENT

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk were provided in the January 29, 2011 financial statements presented under Canadian GAAP and there have been no significant changes in the Company's risk exposures during the nine months ended October 29, 2011, with the exception of foreign currency as described below.

### 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 considers a combination of foreign exchange option contracts, not to exceed three months, and spot rate purchases to manage its foreign exchange exposure on cash flows related to these purchases. A foreign exchange option contract represents an option 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 nine months ended October 29, 2011, the Company satisfied its US dollar requirements through spot rate purchases.

As at October 29, 2011, October 30, 2010 and January 29, 2011, there were no outstanding 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 \$43,509 and trade payables of \$4,473 to determine how a change in the US dollar exchange rate would impact net earnings. On October 29, 2011, a 10% 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 \$2,805 decrease or increase, respectively, in the Company's net earnings for the three and nine months ended October 29, 2011.

## 19. EXPLANATION OF TRANSITION TO IFRS

As stated in note 2, these are the Company's unaudited interim condensed financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the unaudited interim condensed financial statements for the three and nine months ended October 29, 2011, the comparative information presented in these unaudited interim condensed financial statements for the three and nine months ended October 30, 2010 and the year ended January 29, 2011.

An explanation of how the transition from Canadian GAAP to IFRS as at January 31, 2010 ("transition date") has affected the reported financial position, financial performance and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS 1 is provided in the Company's report for the first quarter of the fiscal year ending January 28, 2012.

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's previously published financial statements as at and for the three and nine months ended October 30, 2010 is set out in the following tables and the notes that accompany the tables.

# Notes to the Interim Condensed Financial Statements

## Reconciliation of Balance Sheet as at October 30, 2010

(in thousands of Canadian dollars)

Note	Canadian GAAP Accounts	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS	IFRS Accounts
	<b>ASSETS</b>					<b>ASSETS</b>
	CURRENT ASSETS					CURRENT ASSETS
	Cash and cash equivalents	\$ 218,944	\$ -	\$ -	\$ 218,944	Cash and cash equivalents
	Marketable securities	51,345	-	-	51,345	Marketable securities
	Accounts receivable	3,622	-	-	3,622	Trade and other receivables
	Inventories	94,078	-	-	94,078	Inventories
a)	Prepaid expenses	14,161	(1,066)	-	13,095	Prepaid expenses
	Future income taxes	2,214	-	(2,214)	-	
	Total Current Assets	384,364	(1,066)	(2,214)	381,084	Total Current Assets
	CAPITAL ASSETS					NON-CURRENT ASSETS
b), c)	Property and equipment	203,436	(1,057)	-	202,379	Property and equipment
	Intangibles	11,740	-	-	11,740	Intangibles
	Total Capital Assets	215,176	(1,057)	-		
	GOODWILL	42,426	-	-	42,426	Goodwill
j)	FUTURE INCOME TAXES	13,869	4,854	2,214	20,937	Deferred income taxes
					277,482	Total Non-Current Assets
		\$ 655,835	\$ 2,731	\$ -	\$ 658,566	Total Assets
	<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>
	CURRENT LIABILITIES					CURRENT LIABILITIES
d)	Accounts payable and accrued items	\$ 86,917	\$ (4,153)	\$ (14,147)	\$ 68,617	Trade and other payables
d)		-	10,550	4,218	14,768	Deferred revenue
	Income taxes payable	7,711	-	-	7,711	Income taxes payable
	Current portion of long-term debt	1,363	-	-	1,363	Current portion of long-term debt
	Total Current Liabilities	95,991	6,397	(9,929)	92,459	Total Current Liabilities
		-	-	9,929	9,929	NON-CURRENT LIABILITIES
d)		-	2,677	-	2,677	Other payables
	DEFERRED LEASE CREDITS	19,591	-	-	19,591	Deferred revenue
	LONG-TERM DEBT	10,402	-	-	10,402	Deferred lease credits
e), f)	ACCRUED PENSION LIABILITY	6,391	6,023	-	12,414	Long-term debt
			8,700	9,929	55,013	Pension liability
						Total Non-Current Liabilities
	SHAREHOLDERS' EQUITY					SHAREHOLDERS' EQUITY
	Share capital	27,985	-	-	27,985	Share capital
	Contributed surplus	6,134	-	-	6,134	Contributed surplus
k)	Retained earnings	488,206	(19,229)	-	468,977	Retained earnings
l)	Accumulated other comprehensive income (loss)	1,135	6,863	-	7,998	Accumulated other comprehensive income
	Total Shareholders' Equity	523,460	(12,366)	-	511,094	Total Shareholders' Equity
		\$ 655,835	\$ 2,731	\$ -	\$ 658,566	Total Liabilities and Shareholders' Equity

# Notes to the Interim Condensed Financial Statements

## Reconciliation of Statement of Earnings for the nine months ended October 30, 2010

(in thousands of Canadian dollars except per share amounts)

Note	Canadian GAAP Accounts	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS	IFRS Accounts
d)	Sales	\$ 800,793	\$ (10,507)	\$ –	\$ 790,286	Sales
	Cost of goods sold and selling, general and administrative expenses	649,771	–	(394,313)	255,458	Cost of goods sold
		151,022	(10,507)	394,313	534,828	Gross profit
a), b), c), d)		–	(9,176)	400,215	391,039	Selling and distribution expenses
c), e), f)		–	(477)	40,010	39,533	Administrative expenses
	Depreciation and amortization	45,075	–	(45,075)	–	
	Operating earnings before the undernoted	105,947	(854)	(837)	104,256	Results from operating activities
	Investment income	2,674	–	837	3,511	Finance income
	Interest on long-term debt	583	–	–	583	Finance costs
	Earnings before income taxes	108,038	(854)	–	107,184	Earnings before income taxes
	Income taxes:					
	Current	35,034				
	Future	(2,616)				
i)		32,418	(402)	–	32,016	Income taxes
	Net earnings	\$ 75,620	\$ (452)	\$ –	\$ 75,168	Net earnings
	Earnings per share:					Earnings per share:
	Basic	\$ 1.13			\$ 1.12	Basic
	Diluted	1.12			1.11	Diluted

## Reconciliation of Statement of Comprehensive Income for the nine months ended October 30, 2010

(in thousands of Canadian dollars)

Note	Canadian GAAP Accounts	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS	IFRS Accounts
	Net earnings	\$ 75,620	\$ (452)	\$ –	\$ 75,168	Net earnings
	Other comprehensive income:					Other comprehensive income:
	Net unrealized gain on available-for-sale financial assets arising during the period (net of tax of \$394)	2,643	–	–	2,643	Net unrealized gain on available-for-sale financial assets arising during the period (net of tax of \$394)
	Comprehensive income	\$ 78,263	\$ (452)	\$ –	\$ 77,811	Total comprehensive income

# Notes to the Interim Condensed Financial Statements

## Reconciliation of Statement of Earnings for the three months ended October 30, 2010

(in thousands of Canadian dollars except per share amounts)

Note	Canadian GAAP Accounts	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS	IFRS Accounts
d)	Sales	\$ 266,162	\$ (3,647)	\$ -	\$ 262,515	Sales
	Cost of goods sold and selling, general and administrative expenses	224,196	-	(135,481)	88,715	Cost of goods sold
		41,966	(3,647)	135,481	173,800	Gross profit
a), b), c), d)		-	(5,470)	138,193	132,723	Selling and distribution expenses
c), e), f)		-	(159)	13,417	13,258	Administrative expenses
	Depreciation and amortization	15,163	-	(15,163)	-	
	Operating earnings before the undernoted	26,803	1,982	(966)	27,819	Results from operating activities
	Investment income	1,030	-	966	1,996	Finance income
	Interest on long-term debt	189	-	-	189	Finance costs
	Earnings before income taxes	27,644	1,982	-	29,626	Earnings before income taxes
	Income taxes:					
	Current	9,236				
	Future	(866)				
i)		8,370	564	-	8,934	Income taxes
	Net earnings	\$ 19,274	\$ 1,418	\$ -	\$ 20,692	Net earnings
	Earnings per share:					Earnings per share:
	Basic	\$ 0.29			\$ 0.31	Basic
	Diluted	0.29			0.31	Diluted

## Reconciliation of Statement of Comprehensive Income for the three months ended October 30, 2010

(in thousands of Canadian dollars)

Note	Canadian GAAP Accounts	Canadian GAAP	IFRS Adjustments	IFRS Reclassifications	IFRS	IFRS Accounts
	Net earnings	\$ 19,274	\$ 1,418	\$ -	\$ 20,692	Net earnings
	Other comprehensive income:					Other comprehensive income:
	Net unrealized gain on available-for-sale financial assets arising during the period (net of tax of \$250)	1,674	-	-	1,674	Net unrealized gain on available-for-sale financial assets arising during the period (net of tax of \$250)
	Comprehensive income	\$ 20,948	\$ 1,418	\$ -	\$ 22,366	Total comprehensive income

# Notes to the Interim Condensed Financial Statements

## **Material Adjustments to the Statements of Cash Flows**

IFRS require cash flows from interest and dividends received and paid, and income taxes paid, to be disclosed directly in the statement of cash flows. Under Canadian GAAP, the Company disclosed interest and income taxes paid in the notes to the financial statements. This has resulted in a change to the presentation of the statements of cash flows for all periods presented in these unaudited interim condensed financial statements. There are no other material differences between the Company's statements of cash flows presented under IFRS and the statements of cash flows presented under Canadian GAAP.

## **Notes to the Reconciliations**

The preceding are reconciliations of the financial statements previously presented under Canadian GAAP to the amended financial statements prepared under IFRS. Items identified as "IFRS adjustments" are required as the accounting treatment under Canadian GAAP differs from the treatment under IFRS. Items identified as "IFRS reclassifications" are solely presentation reclassifications required to present the previous Canadian GAAP financial statements line items on a consistent basis with that of the IFRS presentation. Details on the nature of both types of changes are described below.

## **Index to the Notes to the Reconciliations**

- a) Advertising Expenses
- b) Impairment of Property and Equipment
- c) Components of Property and Equipment
- d) Customer Loyalty Programs
- e) Past Service Costs of a Defined Benefit Plan
- f) Measurement Date of a Defined Benefit Plan
- g) Financial Instruments
- h) Re-Measurement of Tax Assets and Liabilities
- i) Income Tax Expense
- j) Deferred Income Taxes
- k) Retained Earnings
- l) Accumulated Other Comprehensive Income

# Notes to the Interim Condensed Financial Statements

## IFRS Adjustments

### a) Advertising Expenses

Under IFRS, in accordance with IAS 38 *Intangible Assets*, advertising costs must be recognized as an expense at the time the expense is incurred. Canadian GAAP allowed for advertising costs to be deferred (as prepaid items) and expensed at the time the advertising occurs.

The impact arising from the change is summarized as follows:

	For the nine months ended October 30, 2010	For the three months ended October 30, 2010
<b>STATEMENT OF EARNINGS</b>		
Increase (decrease) in selling and distribution expenses	\$ 203	\$ (467)
<b>(Decrease) increase in earnings before income taxes</b>	<b>\$ (203)</b>	<b>\$ 467</b>

October 30, 2010

<b>BALANCE SHEET</b>		
Decrease in prepaid expenses		\$ (1,066)
Increase in deferred income tax assets		317
<b>Decrease in retained earnings</b>		<b>\$ (749)</b>

### b) Impairment of Property and Equipment

For purposes of assessing impairment of property and equipment in accordance with IAS 36 *Impairment of Assets*, the Company has identified cash-generating units ("CGU") based on the smallest group of assets that are capable of generating largely independent cash inflows. In addition, the recoverable amount for impairment analysis is based on the higher of its value in use, which is based on discounted cash flows, and fair value less costs to sell. Under Canadian GAAP, property and equipment was allocated to asset groups defined as the lowest of assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

For the three and nine months ended October 30, 2010, due to the impairment charge of \$3,803 recorded at the Transition Date, depreciation expense was reduced by \$472 and \$997 respectively. No additional impairment charge was recorded during the three or nine months ended October 30, 2010, nor was any part of the impairment charge reversed.

The impact arising from the change is summarized as follows:

	For the nine months ended October 30, 2010	For the three months ended October 30, 2010
<b>STATEMENT OF EARNINGS</b>		
Decrease in selling and distribution expenses	\$ (997)	\$ (472)
<b>Increase in earnings before income taxes</b>	<b>\$ 997</b>	<b>\$ 472</b>

October 30, 2010

<b>BALANCE SHEET</b>		
Decrease in property and equipment		\$ (2,806)
Increase in deferred income tax assets		727
<b>Decrease in retained earnings</b>		<b>\$ (2,079)</b>

# Notes to the Interim Condensed Financial Statements

## c) Components of Property and Equipment

Under IFRS, in accordance with IAS 16 *Property, Plant and Equipment*, each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately, over its respective estimated useful life. Canadian GAAP provided no guidance on the cost of a component and was less specific about the level at which component accounting was required. As a result, the Company's buildings were broken down into components, with useful lives varying from 10 to 50 years.

The impact arising from the change is summarized as follows:

	For the nine months ended October 30, 2010	For the three months ended October 30, 2010
<b>STATEMENT OF EARNINGS</b>		
Decrease in selling and distribution expenses	\$ (118)	\$ (39)
Decrease in administrative expenses	(78)	(26)
<b>Increase in earnings before income taxes</b>	<b>\$ 196</b>	<b>\$ 65</b>

October 30, 2010

<b>BALANCE SHEET</b>		
Increase in property and equipment		\$ 1,749
Decrease in deferred income tax assets		(453)
<b>Increase in retained earnings</b>		<b>\$ 1,296</b>

## d) Customer Loyalty Programs

Under IFRS, in accordance with IFRIC 13 *Customer Loyalty Programs*, the fair value of loyalty points and awards granted under customer loyalty programs are recognized as a separately identifiable component of the initial sales transaction, and deferred until the Company has fulfilled its obligation. The Company's practice under Canadian GAAP was not to defer any revenue associated with customer loyalty programs.

The impact arising from the change is summarized as follows:

	For the nine months ended October 30, 2010	For the three months ended October 30, 2010
<b>STATEMENT OF EARNINGS</b>		
Decrease in sales	\$ (10,507)	\$ (3,647)
Decrease in selling and distribution expenses	(8,264)	(4,492)
<b>(Decrease) increase in earnings before income taxes</b>	<b>\$ (2,243)</b>	<b>\$ 845</b>

October 30, 2010

<b>BALANCE SHEET</b>		
Increase in deferred revenue		\$ 13,227
Decrease in trade and other payables		(4,153)
Increase in deferred income tax assets		2,701
<b>Decrease in retained earnings</b>		<b>\$ (6,373)</b>

# Notes to the Interim Condensed Financial Statements

## e) Past Service Costs of a Defined Benefit Plan

Under IFRS, in accordance with IAS 19 *Employee Benefits*, liabilities and expenses for vested past service costs under a defined benefit plan are recognized immediately in the statement of earnings. Under Canadian GAAP, the Company recognized past service costs under the Company's defined benefit plan and SERP over the expected average remaining service period.

The impact arising from the change is summarized as follows:

	For the nine months ended October 30, 2010	For the three months ended October 30, 2010
<b>STATEMENT OF EARNINGS</b>		
Decrease in administrative expenses	\$ (441)	\$ (147)
<b>Increase in earnings before income taxes</b>	<b>\$ 441</b>	<b>\$ 147</b>

October 30, 2010

<b>BALANCE SHEET</b>		
Increase in pension liability		\$ 4,879
Increase in deferred income tax assets		1,265
<b>Decrease in retained earnings</b>		<b>\$ (3,614)</b>

## f) Measurement Date of a Defined Benefit Plan

Under IFRS, in accordance with IAS 19 *Employee Benefits*, defined benefit obligations and plan assets are measured annually at the reporting date and revisited at each reporting date. Under Canadian GAAP, the Company measured defined benefit obligations and plan assets as of December 31<sup>st</sup>.

The impact arising from the change is summarized as follows:

	For the nine months ended October 30, 2010	For the three months ended October 30, 2010
<b>STATEMENT OF EARNINGS</b>		
Increase in administrative expenses	\$ 42	\$ 14
<b>Decrease in earnings before income taxes</b>	<b>\$ (42)</b>	<b>\$ (14)</b>

October 30, 2010

<b>BALANCE SHEET</b>		
Increase in pension liability		\$ 1,144
Increase in deferred income tax assets		297
<b>Decrease in retained earnings</b>		<b>\$ (847)</b>



# Notes to the Interim Condensed Financial Statements

## g) Financial Instruments

Under IFRS, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, impairment testing for available-for-sale financial assets (marketable securities), which are measured at fair value, is determined by objective evidence indicating “prolonged or significant” declines in market value. Canadian GAAP referred to “other than temporary” declines.

Due to the change in determination of impairment from “other than temporary” to “prolonged or significant” and based on the impairment test performed as of the Transition Date, the Company recognized an impairment loss of \$7,249 (before tax) for certain available-for-sale equity securities considered to have a significant or prolonged decline in their fair values. The impact arising from the change is summarized as follows:

October 30, 2010

<b>BALANCE SHEET</b>	
Increase in accumulated other comprehensive income	\$ 7,249
Decrease in accumulated other comprehensive income – tax effect	(940)
<b>Decrease in retained earnings</b>	<b>\$ (6,309)</b>

## h) Re-Measurement of Tax Assets and Liabilities

Under IFRS, if a deferred income tax asset or liability is re-measured subsequent to initial recognition, the impact of re-measurement is recorded in earnings, unless it relates to an item originally recognized in equity, in which case the change would also be recorded in equity. The practice of tracking the re-measurement of taxes back to the item which originally triggered the recognition is commonly referred to as “backwards tracing”. Canadian GAAP prohibits backwards tracing except in relation to business combinations and financial reorganizations.

The impact arising from the change is summarized as follows:

October 30, 2010

<b>BALANCE SHEET</b>	
Increase in accumulated other comprehensive income	\$ 554
<b>Decrease in retained earnings</b>	<b>\$ (554)</b>

# Notes to the Interim Condensed Financial Statements

## i) Income Tax Expense

The above changes increased (decreased) the income tax expense as follows:

		For the nine months ended	For the three months ended
	Note	October 30, 2010	October 30, 2010
Advertising expenses	a)	\$ (60)	\$ 139
Impairment of property and equipment	b)	258	122
Components of property and equipment	c)	51	17
Customer loyalty programs	d)	(754)	252
Past service costs of a defined benefit plan	e)	114	38
Measurement date of a defined benefit plan	f)	(11)	(4)
<b>(Decrease) increase in income tax expense</b>		<b>\$ (402)</b>	<b>\$ 564</b>

## j) Deferred Income Taxes

The above changes increased (decreased) deferred income tax assets as follows:

	Note	October 30, 2010
Advertising expenses	a)	\$ 317
Impairment of property and equipment	b)	727
Components of property and equipment	c)	(453)
Customer loyalty programs	d)	2,701
Past service costs of a defined benefit plan	e)	1,265
Measurement date of a defined benefit plan	f)	297
<b>Increase in deferred income tax assets</b>		<b>\$ 4,854</b>

# Notes to the Interim Condensed Financial Statements

## k) Retained Earnings

The above changes increased (decreased) retained earnings as follows:

	Note	October 30, 2010
Advertising expenses	a)	\$ (749)
Impairment of property and equipment	b)	(2,079)
Components of property and equipment	c)	1,296
Customer loyalty programs	d)	(6,373)
Past service costs of a defined benefit plan	e)	(3,614)
Measurement date of a defined benefit plan	f)	(847)
Financial instruments	g)	(6,309)
Re-measurement of tax assets and liabilities	h)	(554)
<b>Decrease in retained earnings</b>		<b>\$ (19,229)</b>

## l) Accumulated Other Comprehensive Income

The above changes increased (decreased) accumulated other comprehensive income as follows:

	Note	October 30, 2010
Financial instruments	g)	\$ 7,249
Financial instruments – tax effect	g)	(940)
Re-measurement of tax assets and liabilities	h)	554
<b>Increase in accumulated other comprehensive income</b>		<b>\$ 6,863</b>

# Notes to the Interim Condensed Financial Statements

## **IFRS RECLASSIFICATIONS**

### **Deferred Income Taxes**

Under IFRS, as per IAS 1 *Presentation of Financial Statements*, deferred income tax assets and liabilities cannot be classified as current. Under Canadian GAAP, when assets and liabilities were segregated between current and non-current, the future income tax assets and liabilities were segregated. The effect as at October 30, 2010 was to reclassify \$2,214 of deferred income tax assets from current to non-current.

### **Deferred Revenue**

Under IFRS, the Company has chosen to present unredeemed gift cards as deferred revenue on the balance sheet. Under Canadian GAAP, unredeemed gift cards were presented as accounts payable and accrued items.

### **Trade and Other Payables**

Under IFRS, in accordance with IAS 1 *Presentation of Financial Statements*, certain non-trade payables have been re-classified from current to non-current liabilities on the balance sheet.

### **Statement of Earnings**

Under IFRS, in accordance with IAS 1 *Presentation of Financial Statements*, an analysis of expenses is required, either by nature or by function, on the face of the statement of earnings. The Company has elected to present the analysis of expenses by function. Depreciation and amortization expenses are allocated within each function to which it relates. Under Canadian GAAP, there was no requirement for expenses to be classified according to their nature or function.

# 975

## Stores Across Canada

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	<b>Reitmans</b>	<b>Smart Set</b>	<b>RW &amp; CO.</b>	<b>Thyme</b>	<b>Cassis</b>	<b>Penningtons</b>	<b>Addition Elle</b>	<b>Total</b>
Newfoundland	14	3	1	-	-	4	2	<b>24</b>
Prince Edward Island	3	3	-	-	-	1	-	<b>7</b>
Nova Scotia	19	6	1	2	-	10	2	<b>40</b>
New Brunswick	16	6	3	1	1	4	5	<b>36</b>
Québec	84	39	16	21	8	24	32	<b>224</b>
Ontario	118	59	26	28	10	56	43	<b>340</b>
Manitoba	14	5	2	2	-	6	4	<b>33</b>
Saskatchewan	13	3	-	2	-	8	5	<b>31</b>
Alberta	43	18	8	12	4	22	16	<b>123</b>
British Columbia	40	16	11	9	2	23	14	<b>115</b>
Northwest Territories	1	-	-	-	-	-	-	<b>1</b>
Yukon	1	-	-	-	-	-	-	<b>1</b>
	<b>366</b>	<b>158</b>	<b>68</b>	<b>77</b>	<b>25</b>	<b>158</b>	<b>123</b>	<b>975</b>

# Our Banners

Inspired by role models not supermodels, **REITMANS** offers affordable, stylish fashions designed to fit everybody and every body. Operating **366 STORES** averaging 4,600 sq.ft., Reitmans, Canada's largest women's apparel specialty chain and leading fashion brand, has developed strong customer loyalty through superior service, insightful marketing and quality merchandise. Reitmans, designed for real life. Reitmans fashions can also be purchased online at [reitmans.com](http://reitmans.com).

With **158 STORES**, **SMARTSET** is Canada's fashion destination for young stylish women aged 25 to 35. Averaging 3,400 sq.ft., Smart Set's energetic environment provides our customer with the fashions she needs to create her own lifestyle wardrobe. Smart Set offers great value in a wide assortment of styles from workwear essentials and accessories, to activewear and city casual clothing.

Operating **68 STORES**, which average 4,500 sq.ft. in major malls, **RW & CO.** caters to junior (18 to 30) ladies and men, featuring fashionable, original and quality urban and casual wear at moderate prices. A unique and comfortable store environment, genuine customer care and exceptional marketing support distinguish the RW & CO. lifestyle brand.

**THYME**, Canada's leading maternity fashion brand, offers all pregnant women current maternity styles with expert and friendly staff. Thyme caters to all pregnant women who want to stay fun-loving and stylish throughout their pregnancy. Thyme operates **77 STORES** averaging 2,400 sq. ft. in major malls and power centres.

The newest of the Reitmans (Canada) Limited retail banners, **CASSIS** has **25 STORES** averaging 3,400 sq.ft., which are located in major regional malls. Cassis features urban casual and career clothing that reflects the personality of our customer: charismatic and youthful. Cassis offers styles, cuts and fabrics that flatter the figure of the forty-something woman, while showcasing the energy and attitude of her 35-year-old mindset.

With **158 STORES** across the country, **PENNINGTONS** offers its plus-size customers a great selection of career, casual, intimate apparel and accessories that fit her lifestyle. Featuring an assortment of classic, as well as contemporary styling, Penningtons has affordable fashions that fit, with sizes ranging from 14 to 32 and 1X to 6X. Also, available in all Penningtons locations is our MXM line catering to the younger, trendy plus-size customer. Stores average 6,000 sq.ft. and are situated in power centres and strip malls. Penningtons fashions can also be purchased online at [penningtons.com](http://penningtons.com).

Operating **123 STORES** across Canada, **ADDITIONELLE** invites its customers to "Make a Statement" with their exciting array of body-confident contemporary and classic fashions that are both stylish and affordable. In addition to unique collections of work to weekend styles, Addition Elle carries a selection of intimate apparel, sleepwear, active wear, outerwear and accessories, as well as offering a more junior line for young, trendy customers called MXM. Averaging 6,100 sq. ft., Addition Elle stores are located in power centres and malls across Canada. Addition Elle fashions can also be purchased online at [additionelle.com](http://additionelle.com).



# Corporate Information

## Reitmans (Canada) Limited

### **Administration Office**

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Telephone: **(514) 384-1140**  
Fax: **(514) 385-2669**  
E-mail: **info@reitmans.com**  
Corporate Website: **reitmans.ca**

### **Registered Office**

3300 Highway #7 West, Suite 702  
Vaughan, Ontario L4K 4M3  
Telephone: **(905) 761-2830**  
Fax: **(905) 761-8922**

### **Transfer Agent and Registrar**

Computershare Investor Services Inc.  
Montreal, Toronto, Calgary, Vancouver

### **Stock Symbols**

THE TORONTO STOCK EXCHANGE

**Common**                    **RET**  
**Class A non-voting**      **RET.A**

Une version française de ce rapport peut être obtenue en écrivant au secrétaire de Reitmans (Canada) Limitée, 250, rue Sauvé ouest, Montréal, Québec H3L 1Z2



Reitmans  
Smart Set  
RW & CO.  
Thyme  
Cassis  
Penningtons  
Addition Elle

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