INTERIM **REPORT**

FOR THE SIX MONTHS ENDED **AUGUST 3, 2013**

Reitmans
(CANADA) LIMITED

REITMANS IS CANADA'S LEADING SPECIALTY RETAILER.

WE ARE CUSTOMER DRIVEN, VALUE ORIENTED AND COMMITTED TO EXCELLENCE.

BY PROMOTING INNOVATION, GROWTH, DEVELOPMENT AND TEAMWORK, WE STRIVE TO

SERVE OUR CUSTOMERS THE BEST QUALITY/VALUE PROPOSITION IN THE MARKETPLACE.

TO OUR **SHAREHOLDERS**

Sales for the six months ended August 3, 2013 were $470,306,000 as compared with $496,607,000 for the six months ended July 28, 2012, a decrease of 5.3%. Same store sales[1] decreased 5.3% compared to the comparable 26 weeks ended August 4, 2012. The retail environment remained challenging with consumer debt remaining high and heightened competitive pressures. Sales continued to be impacted by our customers' preference to focus their expenditures on non-discretionary purchases, as well as slower than anticipated acceptance by consumers of the Company's repositioning and rebranding efforts in certain of its banners. Sales through the various banners' e-commerce channels continued to show strong growth, with all banners now offering a wide assortment across virtually all product categories. The Company's gross margin for the six months ended August 3, 2013 decreased to 63.4% from 64.7% for the six months ended July 28, 2012. Net earnings for the six months ended August 3, 2013 were $7,596,000 ($0.12 diluted earnings per share) as compared with $27,530,000 ($0.42 diluted earnings per share) for the six months ended July 28, 2012. In the six months ended August 3, 2013, adjusted EBITDA[1] was $41,306,000 as compared with $63,542,000 for the six months ended July 28, 2012, a decrease of 35.0%.

Sales for the three months ended August 3, 2013 decreased 9.3% to $253,445,000 as compared with $279,513,000 for the three months ended July 28, 2012. Same store sales[1] decreased 6.8% compared to the comparable 13 weeks ended August 4, 2012. The Company's gross margin for the three months ended August 3, 2013 decreased to 62.4% from 64.7% for the three months ended July 28, 2012. Net earnings for the three months ended August 3, 2013 were $10,182,000 ($0.16 diluted earnings per share) as compared with $27,649,000 ($0.42 diluted earnings per share) for the three months ended July 28, 2012. Adjusted EBITDA[1] decreased by 40.1% to $30,623,000 for the three months ended August 3, 2013 as compared with $51,091,000 for the three months ended July 28, 2012.

During the three months ended August 3, 2013, the Company opened 3 new stores, comprised of 1 Reitmans, 1 RW&CO. and 1 Penningtons. Twelve stores were closed, comprised of 3 Reitmans, 4 Smart Set and 5 Penningtons. At August 3, 2013, there were 900 stores in operation, consisting of 357 Reitmans, 141 Smart Set, 74 RW&CO., 72 Thyme Maternity, 153 Penningtons and 103 Addition Elle, as compared with a total of 918 stores as at July 28, 2012. In addition, there were 21 Thyme Maternity boutiques in select Babies"R"Us locations in Canada and 158 boutiques in Babies"R"Us stores in the United States.

Sales for the month of August (the four weeks ended August 31, 2013) increased 4.6% with same store sales[1] increasing 3.1% compared to the comparable 4 weeks ended September 1, 2012.

At the Board of Directors meeting held on September 11, 2013, a quarterly cash dividend (constituting eligible dividends) of $0.20 per share on all outstanding Class A non-voting and Common shares of the Company was declared, payable October 24, 2013 to shareholders of record on October 10, 2013.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman
Chairman and Chief Executive Officer

Montreal, September 11, 2013

[1] The above text includes a reference to adjusted EBITDA, a non-GAAP financial measure. Adjusted EBITDA is defined as earnings before income taxes, dividend income, interest income, realized gains or losses on disposal of available-for-sale financial assets, impairment losses on available-for-sale financial assets, interest expense, depreciation, amortization and net impairment losses related to property and equipment. The Company also discloses same store sales, which are defined as sales generated by stores that have been open for at least one year and includes e-commerce sales for banners that have been operational 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 such 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 OF**

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE SIX MONTHS ENDED AUGUST 3, 2013

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the fiscal period ended August 3, 2013 and the audited annual consolidated financial statements for the fiscal year ended February 2, 2013 and the notes thereto which are available at www.sedar.com. This MD&A is dated September 11, 2013.

All financial information contained in this MD&A and Reitmans' unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All monetary amounts in this report are in Canadian dollars and have been rounded to the nearest thousand, except per share amounts. The unaudited condensed consolidated interim financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on September 11, 2013.

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

FORWARD-LOOKING STATEMENTS

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

NON-GAAP FINANCIAL MEASURES

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

The following table reconciles earnings before income taxes to adjusted EBITDA for the six and three months ended August 3, 2013 and July 28, 2012:

(unaudited)	For the six months ended August 3, 2013	For the six months ended July 28, 2012[1]	For the three months ended August 3, 2013	For the three months ended July 28, 2012[1]
Earnings before income taxes	**$ 10,084**	$ 36,510	**$ 13,579**	$ 36,809
Dividend income	**(1,736)**	(1,741)	**(868)**	(867)
Interest income	**(304)**	(661)	**(170)**	(331)
Impairment losses on available-for-sale financial assets	**502**	106	**452**	106
Interest expense	**261**	308	**127**	151
Depreciation, amortization and net impairment losses	**32,499**	29,020	**17,503**	15,223
Adjusted EBITDA	**$ 41,306**	$ 63,542	**$ 30,623**	$ 51,091

[1] Adjusted to reflect the impact from the implementation of the amendments to IAS 19, *Employee Benefits*, which can be found in Note 3 of the August 3, 2013 unaudited condensed consolidated interim financial statements

CORPORATE OVERVIEW

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

The Company offers e-commerce website shopping for all of its banners. These online channels offer customers convenience, selection and ease of purchase, while enhancing customer loyalty and continuing to build the brands.

In addition to its individual retail outlets, the Company operates 21 Thyme Maternity boutiques ("shop-in-shop") in select Babies"R"Us locations in Canada and 158 shop-in-shop boutiques in Babies"R"Us locations in the United States.

On July 11, 2013 the Company announced an agreement with Sears Canada for the introduction of Penningtons plus-size apparel in Sears stores in Canada. This partnership with Sears Canada will see Penningtons products initially being made available in five Sears stores, as well as online at sears.ca.

RETAIL BANNERS

	Number of stores at February 2, 2013	Q1 Openings	Q1 Closings	Q2 Openings	Q2 Closings	Number of stores at August 3, 2013	Number of stores at July 28, 2012
Reitmans	361	2	(4)	1	(3)	357	360
Smart Set	146	1	(2)	–	(4)	141	152
RW & CO.	73	–	–	1	–	74	68
Thyme Maternity[1]	72	–	–	–	–	72	74
Penningtons	153	9	(5)	1	(5)	153	154
Addition Elle	106	1	(4)	–	–	103	110
Total	**911**	**13**	**(15)**	**3**	**(12)**	**900**	**918**

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

Thyme Maternity shop-in-shop locations:

Babies"R"Us – Canada	20	–	–	1	–	21	18
Babies"R"Us – US	154	–	–	4	–	158	–
Babies"R"Us – Total	**174**	**–**	**–**	**5**	**–**	**179**	**18**

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.

STRATEGIC INITIATIVES

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

Some of the ongoing initiatives include:

Initiatives	**Status**
The Company has embarked on a rebranding of the Reitmans, Smart Set, Addition Elle and Penningtons banners with an increased focus on fashion and affordability, which will continue throughout fiscal 2014.	The Company has made significant changes in branding amongst its banners. The execution of the various brand strategies continues and the Company remains hopeful for its success.
The Company continues to expand its offering of Thyme Maternity merchandise to U.S. customers through its partnership with Babies"R"Us. This business endeavor offers the Company an opportunity to introduce its merchandise into the U.S. market through its shop-in-shop boutiques.	The Thyme Maternity banner continues to refine its U.S. offerings and evaluate additional Babies"R"Us locations.
In fiscal 2014 the Company will launch e-commerce for the Smart Set, RW&CO. and Thyme Maternity banners with fulfillment through the Company's existing distribution centre.	The Company successfully launched its RW&CO. e-commerce site in March 2013, Smart Set in April 2013 and Thyme Maternity in July 2013. The Company now offers e-commerce for all of its banners.
The Company has partnered with EziBuy Ltd., a New Zealand based retailer, to sell Addition Elle merchandise through the partner's online sales channel. EziBuy Ltd. is a multi-channel retailer offering fashion clothing and home decor in Australia and New Zealand.	The Company is proceeding with its new distribution channel into foreign markets with EziBuy Ltd. and has commenced shipments in the second quarter of fiscal 2014.
The Company has entered into an agreement with Sears Canada for the introduction of Penningtons plus-size apparel in Sears stores in Canada. This partnership will see Penningtons products initially being made available in five Sears stores, as well as online at sears.ca.	The Company is completing all steps necessary to enable the fulfillment of Sears Canada orders and is working closely with Sears to provide a meaningful and consistent Penningtons brand representation in the selected store locations.
Continuation of a companywide supply chain optimization and retail enterprise initiative, internally branded as "SCORE", focused on deploying best in class retail applications supported by a new and improved technology platform. SCORE will enable new processes that will permit flexibility and adaptability across the merchandising and supply chain operations.	The Company has completed the deployment of its warehouse management system portion of the SCORE deployment. The warehouse system is delivering anticipated results and improved system efficiencies continue to be achieved. Remaining phases of the SCORE project are on track for a fiscal 2015 final completion target.
A corporate initiative aimed at reducing costs across the Company has been introduced which includes a review of head office activities and processes targeted at improving efficiencies, an in-depth review of marketing expenditures and a significant reduction in capital expenditures.	For fiscal 2014 the Company has significantly reduced its budgeted capital expenditures to approximately $44,000 from over $84,000 spent in fiscal 2013. The Company has undertaken a comprehensive review of its marketing strategies and related costs to determine any possible savings opportunities while not diminishing advertising effectiveness. Additionally, in the first quarter of fiscal 2014 the Company's initiatives included a reduction in the number of employees across the Company resulting in severance costs. Process improvements are anticipated to result in additional savings and further improve efficiencies as the Company moves forward with this project.
A comprehensive review of the Company's global sourcing strategy and execution has been undertaken with a goal of reducing lead time for bringing products to market.	This initiative has commenced and is in the early stages of gathering information and assessing current practices in order to evaluate opportunities.

OPERATING RESULTS FOR THE SIX MONTHS ENDED AUGUST 3, 2013 ("YEAR TO DATE FISCAL 2014") AND COMPARISON TO OPERATING RESULTS FOR THE SIX MONTHS ENDED JULY 28, 2012 ("YEAR TO DATE FISCAL 2013")

Sales for the year to date fiscal 2014 decreased 5.3% to $470,306 as compared with $496,607 for the year to date fiscal 2013. Same store sales decreased by 5.3%. The retail environment remains challenging with consumer debt remaining high and heightened competitive pressure on retailers, as noted in the Bank of Canada July 2013 Monetary Policy Report. Sales continued to be impacted by our customers' preference to focus their expenditures on non-discretionary purchases, as well as slower than anticipated acceptance by consumers of the Company's repositioning and rebranding efforts. In an effort to improve performance, the Company continues to refine its offerings and improve its brand focus. Sales through the various banners' e-commerce channels continued to show strong growth, with all banners now offering a wide assortment across virtually all product categories.

Gross profit for the year to date fiscal 2014 decreased 7.1% to $298,377 as compared with $321,221 for the year to date fiscal 2013. The Company's gross margin for the year to date fiscal 2014 decreased to 63.4% from 64.7% for the year to date fiscal 2013. A highly competitive retail environment resulted in increased promotional activity which contributed to lower margins.

Selling and distribution expenses for the year to date fiscal 2014 increased 1.8% or $4,786 to $269,279 as compared with $264,493 for the year to date fiscal 2013. This increase is primarily attributable to the write-off of property and equipment related to store closures and asset impairment charges relating to underperforming stores of $4,389 (compared to $1,618 for the year to date fiscal 2013), along with increases in expenses related to advertising and increased depreciation. Depreciation, amortization and net impairment losses included in selling and distribution expenses for the year to date fiscal 2014 were $31,120 compared to $27,670 for the year to date fiscal 2013.

Administrative expenses for the year to date fiscal 2014 increased 1.5% or $341 to $22,891 compared with $22,550 for the year to date fiscal 2013. Depreciation and amortization expense included in administrative expenses for the year to date fiscal 2014 was $1,379 comparable with the year to date fiscal 2013.

Finance income for the year to date fiscal 2014 was $4,640 as compared to $2,868 for the year to date fiscal 2013. This increase of $1,772 is primarily due to a $1,663 foreign exchange gain recognized for the year to date fiscal 2014 ($122 loss for the year to date fiscal 2013) largely attributable to the impact of the fluctuation of the US dollar vis-à-vis the Canadian dollar on US currency held by the Company. Dividend income for the year to date fiscal 2014 of $1,736 was comparable with the year to date fiscal 2013. Interest income decreased for the year to date fiscal 2014 to $304 as compared to $661 for the year to date fiscal 2013, due to the fluctuation of daily balances held in short-term investments and the variable rates of interest earned on these short-term investments. The Company has recorded income of $937 for the year to date fiscal 2014 ($466 for the year to date fiscal 2013) to recognize the net change in the fair value of US dollar option contracts to purchase call options and sell put options.

Finance costs for the year to date fiscal 2014 were $763 as compared to $536 for the year to date fiscal 2013. Included in the year to date fiscal 2014 was interest on long-term debt of $261 compared to $308 for the year to date fiscal 2013. This decrease is primarily attributable to the continued repayment of the mortgage on the Company's distribution centre. An impairment loss on available-for-sale financial assets of $502 is included in the year to date fiscal 2014 ($106 in the year to date fiscal 2013).

For the year to date fiscal 2014, earnings before income taxes were $10,084 as compared to $36,510 for the year to date fiscal 2013, a decrease of $26,426 or 72.4%. Adjusted EBITDA for the year to date fiscal 2014 was $41,306 as compared with $63,542 for the year to date fiscal 2013, a decrease of $22,236 or 35.0%. As mentioned above, a highly competitive retail environment combined with customers' preference to focus their expenditures on non-discretionary purchases, as well as slower than anticipated acceptance by consumers of the Company's repositioning and rebranding efforts has contributed to lower earnings. As previously reported, the Company embarked on an initiative aimed at reducing costs across the organization which includes a review of head office activities and processes targeted at improving efficiencies. This initiative included a reduction in the number of employees in certain areas and severance costs of approximately $965 included in the year to date fiscal 2014. These terminations are projected to result in annualized savings of approximately $3,000. Process improvements are anticipated to result in additional savings and further improve efficiencies as the Company moves forward with this project.

Income tax expense for the year to date fiscal 2014 amounted to $2,488 for an effective tax rate of 24.7%. In the year to date fiscal 2013, income tax expense amounted to $8,980 for an effective tax rate of 24.6%. The Company's effective tax rates reflect the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

Net earnings for the year to date fiscal 2014 decreased 72.4% to $7,596 ($0.12 diluted earnings per share) as compared with $27,530 ($0.42 diluted earnings per share) for the year to date fiscal 2013.

The Company imports a majority of its merchandise purchases from foreign vendors, with lead times in some cases extending eight months. In the year to date fiscal 2014, these merchandise purchases, payable in US dollars, approximated $147,600 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 twelve months. In the year to date fiscal 2014, the Company satisfied its US dollar requirements through a combination of spot purchases and foreign exchange option contracts. The Company entered into transactions with its bank whereby it purchased call options and sold put options, both on the US dollar. Purchased call options and sold put options expiring on the same date have the same strike price. The average strike price for call and put options outstanding is $1.022 (July 28, 2012 – $1.006).

Details of the foreign currency option contracts outstanding as at August 3, 2013 are as follows:

	Notional Amount in US Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
Call options purchased	$ 90,000	$ 2,475	$ –	$ 2,475
Put options sold	$ 160,000	–	(1,256)	(1,256)
		$ 2,475	**$ (1,256)**	**$ 1,219**

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

	Notional Amount in US Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
Call options purchased	$ 22,000	$ 268	$ –	$ 268
Put options sold	$ 44,000	–	(556)	(556)
		$ 268	**$ (556)**	**$ (288)**

OPERATING RESULTS FOR THE THREE MONTHS ENDED AUGUST 3, 2013 ("SECOND QUARTER OF FISCAL 2014") AND COMPARISON TO OPERATING RESULTS FOR THE THREE MONTHS ENDED JULY 28, 2012 ("SECOND QUARTER OF FISCAL 2013")

Sales for the second quarter of fiscal 2014 were $253,445 as compared with $279,513 for the second quarter of fiscal 2013, a decrease of 9.3%. Same store sales decreased by 6.8%. The retail environment remains challenging with consumer debt remaining high and heightened competitive pressure on retailers, as noted in the Bank of Canada July 2013 Monetary Policy Report. Sales continued to be impacted by our customers' preference to focus their expenditures on non-discretionary purchases, as well as slower than anticipated acceptance by consumers of the Company's repositioning and rebranding efforts. In an effort to improve performance, the Company continues to refine its offerings and improve its brand focus. Sales through the various banners' e-commerce channels continued to show strong growth, with all banners now offering a wide assortment across virtually all product categories.

Gross profit for the second quarter of fiscal 2014 was $158,203 as compared with $180,905 for the second quarter of fiscal 2013, a decrease of 12.5%. The Company's gross margin for the second quarter of fiscal 2014 decreased to 62.4% from 64.7% for the second quarter of fiscal 2013. A highly competitive retail environment resulted in increased promotional activity which contributed to lower margins.

Selling and distribution expenses for the second quarter of fiscal 2014 were $136,903 as compared with $135,025 for the second quarter of fiscal 2013, an increase of $1,878 or 1.4%. This increase is primarily attributable to the write-off of property and equipment related to store closures and asset impairment charges relating to underperforming stores of $3,587 (compared to $1,303 in the second quarter of fiscal 2013), combined with a reduction in wage costs resulting from corporate cost structure initiatives implemented. Depreciation, amortization and net impairment losses included in selling and distribution expenses for the second quarter of fiscal 2014 were $16,803 compared to $14,523 for the second quarter of fiscal 2013.

Administrative expenses for the second quarter of fiscal 2014 were $11,020 as compared with $11,503 for the second quarter of fiscal 2013, a decrease of $483 or 4.2%. This decrease is largely attributable to a reduction in personnel expense for certain head office functions. Depreciation and amortization expense included in administrative expenses for the second quarter of fiscal 2014 was $700, comparable with the second quarter of fiscal 2013.

Finance income for the second quarter of fiscal 2014 was $3,878 as compared to $2,689 for the second quarter of fiscal 2013. This increase of $1,189 is primarily due to an increase in income related to a series of US dollar option contracts that were entered into to purchase call options and sell put options (income of $2,536 in the second quarter of fiscal 2014 as compared to income of $552 in the second quarter of fiscal 2013). Dividend income for the second quarter of fiscal 2014 of $868 was comparable with the second quarter of fiscal 2013. Interest income decreased for the second quarter of fiscal 2014 to $170 as compared to $331 for the second quarter of fiscal 2013 due to the fluctuation of daily balances held in short-term investments and the variable rates of interest earned on these short-term investments. Included in the second quarter of fiscal 2014 was a foreign exchange gain of $304 ($939 in the second quarter of fiscal 2013) largely attributable to the impact of the fluctuation of the US dollar vis-à-vis the Canadian dollar on US currency held by the Company.

Finance costs for the second quarter of fiscal 2014 were $579 as compared to $257 for the second quarter of fiscal 2013. This increase of $322 is primarily attributable to an increase in impairment loss on available-for-sale financial assets of $346. Included in the second quarter of fiscal 2014 was interest on long-term debt of $127 compared to $151 for the second quarter of fiscal 2013.

In the second quarter of fiscal 2014, earnings before income taxes were $13,579 as compared to $36,809 in the second quarter of fiscal 2013, a decrease of $23,230. Adjusted EBITDA in the second quarter of fiscal 2014 was $30,623 as compared with $51,091 in the second quarter of fiscal 2013, a decrease of $20,468 or 40.1%. As mentioned above, a highly competitive retail environment combined with customers' preference to focus their expenditures on non-discretionary purchases, as well as slower than anticipated acceptance by consumers of the Company's repositioning and rebranding efforts has contributed to lower earnings. As previously reported, the Company embarked on an initiative aimed at reducing costs across the organization which includes a review of head office activities and processes targeted at improving efficiencies. Process improvements, aimed at further improving efficiencies, continue to be identified as the Company moves forward with this project.

Income tax expense for the second quarter of fiscal 2014 amounted to $3,397 for an effective tax rate of 25.0%. In the second quarter of fiscal 2013 income taxes amounted to $9,160 for an effective tax rate of 24.9%. The Company's effective tax rates reflect the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

The Company recorded net earnings for the second quarter of fiscal 2014 of $10,182 ($0.16 diluted earnings per share) as compared with net earnings of $27,649 ($0.42 diluted earnings per share) for the second quarter of fiscal 2013.

SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected consolidated financial data for the eight most recently completed quarters. This unaudited quarterly information has been prepared in accordance with IFRS. All references to "2014" are to the Company's fiscal year ending February 1, 2014, to "2013" are to the Company's fiscal year ended February 2, 2013 and to "2012" are to the Company's fiscal year ended January 28, 2012.

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2014	2013[1]	2014	2013[1]	2013[1]	2012	2013[1]	2012
Sales	$ 253,445	$ 279,513	$ 216,861	$ 217,094	$ 267,659	$ 259,954	$ 236,247	$ 254,072
Net earnings (loss)	10,182	27,649	(2,586)	(119)	(1,145)	4,674	(29)	10,561
Earnings (loss) per share								
Basic	$ 0.16	$ 0.42	$ (0.04)	$ 0.00	$ (0.02)	$ 0.07	$ 0.00	$ 0.16
Diluted	0.16	0.42	(0.04)	0.00	(0.02)	0.07	0.00	0.16

[1] Quarterly results for fiscal 2013 have been adjusted to reflect the impact from the implementation of the amendments to IAS 19, *Employee Benefits*, as described in Note 3 of the August 3, 2013 unaudited condensed consolidated interim financial statements

Fluctuations in the above-noted quarterly financial information reflect the underlying operations of the Company as well as the impact of a number of factors including, but not limited to, the effect of the closure of the Cassis banner in the fourth quarter of fiscal 2012 and the estimated loss in sales due to supply chain disruption in the third quarter of fiscal 2013. A fifty-third week in fiscal 2013 resulted in a shift in the Company's retail calendar, impacting each of Q1 and Q2 of fiscal 2014. Financial results are also affected by seasonality and the timing of holidays. Due to seasonality the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year.

BALANCE SHEET

Cash and cash equivalents as at August 3, 2013 amounted to $76,559 (July 28, 2012 – $160,132) as compared to $97,626 as at February 2, 2013, a decrease of 21.6%. The reduction in cash and cash equivalents of $21,067 from February 2, 2013 was primarily due to reduced cash generated from operations due to lower sales and continued investment in information technology and store renovations in the second quarter of fiscal 2014, albeit at lower levels than the comparable period of the prior year. The Company has significantly reduced its budgeted capital expenditures for fiscal 2014 and along with initiatives aimed at improving sales performance and cost initiatives outlined earlier, anticipates improvement in its cash position. Marketable securities of $70,432 at August 3, 2013 remained largely unchanged as compared to $71,630 at February 2, 2013 and $70,637 at July 28, 2012.

The Company's trade and other receivables are primarily credit card sales from the last few days of the fiscal quarter. Trade and other receivables as at August 3, 2013 were $3,585 (July 28, 2012 – $3,437) or $384 lower than as at February 2, 2013. As at August 3, 2013, income taxes recoverable were $5,436 (February 2, 2013 – $8,709; July 28, 2012 – $6,755), attributable to instalments made in excess of estimated tax liabilities. Inventories as at August 3, 2013 were $116,595 (July 28, 2012 – $101,935) or $23,278 higher than as at February 2, 2013, reflecting the planned build-up of inventories for the fall selling season. Prepaid expenses, consisting mainly of prepaid insurance, maintenance contracts and realty and business taxes, were $27,869 as at August 3, 2013 (July 28, 2012 – $15,272) comparable with $25,944 as at February 2, 2013. Prepaid expenses were $12,597 more than the comparable period in the prior year, principally due to August 2013 rent that was paid and classified as a prepaid item.

The Company invested $18,900 in additions to property and equipment and intangible assets in the year to date fiscal 2014. This is comprised of $17,740 in new store construction and existing store renovation costs and $1,160 mainly related to information technology system hardware and software enhancements. The Company is in the process of 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 2015, is estimated to cost approximately $27,000 of which $21,613 has been incurred to date.

Total trade and other payables were $93,156 as at August 3, 2013 (July 28, 2012 – $92,599), or $12,581 higher than as at February 2, 2013 due mainly to higher trade payables related to the build-up of inventories in the quarter and the timing of payments for various sales and withholding taxes. The Company's trade and other payables consist largely of trade payables, personnel liabilities, payables relating to premises and sales tax liabilities.

The Company entered into transactions with its bank whereby it purchased call options and sold put options, both on the US dollar. These option contracts extend over a period of ten months. Purchased call options and sold put options expiring on the same date have the same strike price. The Company has recorded a net derivative financial asset, related to foreign exchange option contracts, as at August 3, 2013, of $1,219 (July 28, 2012 net derivative financial liability of $288) as compared to net derivative financial asset of $282 as at February 2, 2013.

Deferred revenue consists of unredeemed gift cards, loyalty points and awards granted under customer loyalty programs. Revenue is recognized when the gift cards, loyalty points and awards are redeemed. Deferred revenue was $10,962 as at August 3, 2013 (July 28, 2012 – $9,959), or $5,335 lower than as at February 2, 2013 due primarily to the timing of gift card and loyalty program issuances prior to Christmas relative to customer redemptions in the new year.

Tenant allowances are recorded as deferred lease credits and amortized as a reduction of rent expense over the term of the related leases. As at August 3, 2013 deferred lease credits were $17,374 (July 28, 2012 – $16,599) as compared to $16,805 as at February 2, 2013.

The Company's long-term debt consists of a mortgage, which is secured by the Company's distribution centre. As at August 3, 2013 long-term debt was $7,801 (July 28, 2012 – $9,322) as compared to $8,573 as at February 2, 2013. The decrease in long-term debt is attributable to the continued repayment of the mortgage debt principal.

Pension liability as at August 3, 2013 was $18,336 (July 28, 2012 – $15,728), or $777 higher than as at February 2, 2013. The increase is due to $900 of pension expense offset by pension contributions paid of $123.

OPERATING RISK MANAGEMENT

ECONOMIC ENVIRONMENT

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

COMPETITIVE ENVIRONMENT

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

SEASONALITY

The Company is principally engaged in the sale of women's apparel through 900 leased retail outlets operating under six banners located across Canada and 21 shop-in-shop boutiques located in Babies"R"Us locations in Canada and 158 shop-in-shop boutiques in Babies"R"Us locations in the United States. The Company's business is seasonal and is also subject to a number of factors which directly impact retail sales of apparel over which it has no control, namely fluctuations in weather patterns, swings in consumer confidence and buying habits and the potential of rapid changes in fashion preferences.

DISTRIBUTION AND SUPPLY CHAIN

The Company depends on the efficient operation of its sole distribution centre, such that any significant disruption in the operation thereof (e.g. natural disaster, system failures, destruction or major damage by fire), could materially delay or impair its ability to replenish its stores on a timely basis causing a loss of sales, which could have a significant effect on the Company's results of operations.

INFORMATION TECHNOLOGY

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

GOVERNMENT REGULATION

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

MERCHANDISE SOURCING

Virtually all of the Company's merchandise is private label. On an annual basis, the Company directly imports approximately 80% of its merchandise, largely from China. In the year to date fiscal 2014, no supplier represented more than 10% of the Company's purchases (in dollars and/or units) and there are a variety of alternative sources (both domestic and international) 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 prevent the Company from acquiring, distributing and/or selling merchandise on an ongoing basis.

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

FINANCIAL RISK MANAGEMENT

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

There have been no significant changes in the Company's risk exposures during the six months ended August 3, 2013 from those described in the Company's audited annual consolidated financial statements for the year ended February 2, 2013.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Shareholders' equity as at August 3, 2013 amounted to $436,342 or $6.76 per share (July 28, 2012 – $493,701 or $7.53 per share; February 2, 2013 – $454,893 or $7.04 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 $146,991 as at August 3, 2013 (July 28, 2012 – $230,769; February 2, 2013 – $169,256). Cash is conservatively invested in short-term deposits with major Canadian financial institutions and commercial paper rated not less than R1. The Company closely monitors its risk with respect to short-term cash investments. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $125,000 or its US dollar equivalent. As at August 3, 2013, $39,732 (July 28, 2012 – $54,237; February 2, 2013 – $46,792) 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 international third-party vendors which require such backing before confirming purchase orders issued by the Company and to support US dollar foreign exchange forward contract purchases. The Company rarely uses such credit facilities for other purposes.

The Company has granted irrevocable standby letters of credit, issued by highly-rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at August 3, 2013, the maximum potential liability under these guarantees was $5,019 (July 28, 2012 – $5,009; February 2, 2013 – $5,014). The standby letters of credit mature at various dates during fiscal 2014. The Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for these items.

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

The Company continued repayment on its long-term debt, relating to the mortgage on the distribution centre, paying down $390 in the second quarter of fiscal 2014. The Company paid $0.20 dividends per share totalling $12,917 in the second quarter of fiscal 2014 compared to $0.20 dividends per share totalling $13,117 in the second quarter of fiscal 2013. With regard to dividend policy, the Board of Directors considers the Company's earnings per share, cash flow from operations, the level of planned capital expenditures and its cash and marketable securities. The targeted payout ratio is approximately 50% to 80% of sustainable earnings per share, 50% to 75% of cash flow from operations with consideration as to the ability to augment the dividend from the liquidity on the Company's balance sheet, if these targets are missed in a given year. The Board of Directors reviews these guidelines regularly.

In the second quarter of fiscal 2014, the Company invested $8,794, primarily on new and renovated stores. The Company is in the process of a significant upgrade to its merchandising and supply chain operations, which are important to the Company's growth strategy. The technology initiatives, along with the SCORE warehouse management systems improvements, will support changes and growth across all areas of the Company, with improved integration while enabling the Company to reduce the overall cost of systems maintenance and upgrades. The total SCORE project, which is being phased in through to completion in fiscal 2015, is estimated to cost approximately $27,000, of which $21,613 has been incurred to date. In the fiscal year ending February 1, 2014, the Company expects to invest approximately $44,000 in capital expenditures. These expenditures, together with the payment of dividends, the repayments related to the Company's bank credit facility and long-term debt obligations and purchases of Class A non-voting shares under a normal course issuer bid approved in November 2012 (if any), are expected to be funded by the Company's existing financial resources and funds derived from its operations.

FINANCIAL COMMITMENTS

There have been no material changes in the Company's financial commitments that are outside of the ordinary course of the Company's business from those described in the Company's audited annual consolidated financial statements for the year ended February 2, 2013.

OUTSTANDING SHARE DATA

At September 11, 2013, 13,440,000 Common shares and 51,145,506 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. The Company has 2,281,250 share options outstanding at an average exercise price of $14.53. Each share option entitles the holder to purchase one Class A non-voting share of the Company at an exercise price established based on the market price of the shares at the date the option was granted.

The Company did not purchase any shares under a normal course issuer bid approved in November 2012 in the year to date fiscal 2014. For further information with respect to the normal course issuer bid refer to the Company's audited annual consolidated financial statements for the year ended February 2, 2013.

OFF-BALANCE SHEET ARRANGEMENTS

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	August 3, 2013			
	Notional Amount in US Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
Call options purchased	$ 90,000	$ 2,475	$ –	$ 2,475
Put options sold	$ 160,000	–	(1,256)	(1,256)
		$ 2,475	**$ (1,256)**	**$ 1,219**

	July 28, 2012			
	Notional Amount in US Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
Call options purchased	$ 22,000	$ 268	$ –	$ 268
Put options sold	$ 44,000	–	(556)	(556)
		$ 268	**$ (556)**	**$ (288)**

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

A foreign currency option contract represents an option (call option) or obligation (put 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.

Included in the determination of the Company's net earnings for the second quarter of fiscal 2014 and for the year to date fiscal 2014 were net foreign exchange gain of $304 and $1,663 (gain of $939 and losses of $122 for the second quarter of fiscal 2013 and for the year to date fiscal 2013, respectively).

RELATED PARTY TRANSACTIONS

There have been no significant changes in related party transactions from those disclosed in the Company's audited annual consolidated financial statements for the year ended February 2, 2013.

FINANCIAL INSTRUMENTS

The Company is highly liquid with significant 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 invests these funds on a short-term basis in bank bearer deposit notes, 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. Marketable securities consist primarily of preferred shares of Canadian public companies. The Company's investment portfolio is subject to stock market volatility.

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

CRITICAL ACCOUNTING ESTIMATES

PENSION PLANS

The Company maintains a contributory, defined benefit plan and sponsors a Supplemental Executive Retirement Plan ("SERP"). The costs of the defined benefit plan and SERP are determined periodically by independent actuaries. Pension expense is included in the results of operations. Assumptions used in developing the net pension expense and projected benefit obligation include a discount rate and rate of increase in salary levels. Based upon the most recently filed actuarial valuation report as at December 31, 2011, the defined benefit plan, despite being fully funded on a going concern basis, had a solvency deficiency of $2,811. The Company has funded the required amounts as at August 3, 2013. The SERP is an unfunded pay as you go plan.

GIFT CARDS / LOYALTY POINTS AND AWARDS

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

INVENTORY VALUATION

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

ASSET IMPAIRMENT

The Company must assess the possibility that the carrying amounts of tangible and intangible assets may not be recoverable. 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 and intangible assets with indefinite useful lives are tested for impairment at least annually at the year-end reporting date, and whenever there is an indication that the asset may be impaired. Management is required to make significant estimates related to future cash flows to determine the amount of asset impairment that should be recognized.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended February 2, 2013 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements except as noted below:

A) CHANGES IN ACCOUNTING POLICIES

Fair Value Measurement

In 2011, the IASB issued IFRS 13, *Fair Value Measurement* ("IFRS 13"), which establishes a single framework for the fair value measurement and disclosure of financial and non-financial assets and liabilities. The new standard unifies the definition of fair value and also introduces new concepts including "highest and best use" and "principal markets" for non-financial assets and liabilities. There are additional disclosure requirements, including increased fair value disclosure for financial instruments for interim and annual financial statements. The Company implemented this standard prospectively in the first quarter of fiscal 2014. There were no measurement impacts on the Company's unaudited condensed consolidated interim financial statements as a result of the adoption of IFRS 13. The Company has included the additional disclosures required by this standard in note 5 of the August 3, 2013 unaudited condensed consolidated interim financial statements.

Employee Benefits

In 2011, the IASB revised IAS 19, *Employee Benefits* ("IAS 19"). The most significant amendments for the Company are the requirement to immediately recognize all unvested past service costs and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying a prescribed discount rate to the net defined benefit obligation. The Company implemented this standard retrospectively in the first quarter of fiscal 2014. The impact from the implementation of the amendments to IAS 19 can be found in Note 3 of the August 3, 2013 unaudited condensed consolidated interim financial statements.

This new accounting policy did not have a material impact on the unaudited condensed consolidated interim statement of cash flows and on the earnings per share.

The amendments also require enhanced annual disclosures for defined benefit plans, including additional information on the characteristics and risks of those plans, which will be included in the Company's 2014 Consolidated Annual Financial Statements.

B) NEW STANDARDS NOT YET ADOPTED

A number of standards, and amendments to standards and interpretations, are not yet effective for the year to date fiscal 2014 and have not been applied in preparing these unaudited condensed consolidated interim financial statements. The following standard which may impact the Company in the future is currently under review:

IFRS 9 – Financial Instruments

This standard becomes mandatory for the years commencing on or after January 1, 2015 with earlier application permitted. IFRS 9 is a new standard, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. The extent of the impact of adoption of this standard on the unaudited condensed consolidated interim financial statements of the Company has not yet been determined.

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 February 2, 2013 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 IFRS. The Company evaluated the effectiveness of the internal controls over financial reporting as of February 2, 2013 and concluded that these controls were effective.

There have been no changes in the Company's internal controls over financial reporting during the year to date fiscal 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

OUTLOOK

The retail environment remains challenging with consumer debt remaining high and heightened competitive pressure on retailers, as noted in the Bank of Canada July 2013 Monetary Policy Report. The Bank of Canada in its July 2013 Monetary Policy Report projected growth for the Canadian economy of 1.8% in calendar 2013 and 2.7% in calendar 2014.

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

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

The Company's Hong Kong office, with over 120 full-time employees, is dedicated to seeking out the highest quality, affordable and fashionable apparel for all of our banners. A comprehensive review of the Company's global sourcing strategy and execution has been undertaken with a goal of reducing lead time for bringing products to market.

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

CONDENSED CONSOLIDATED STATEMENTS OF **EARNINGS**

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS)

	For the six months ended		For the three months ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
		(note 3a)		(note 3a)
Sales	**$ 470,306**	$ 496,607	**$ 253,445**	$ 279,513
Cost of goods sold (note 6)	**171,929**	175,386	**95,242**	98,608
Gross profit	**298,377**	321,221	**158,203**	180,905
Selling and distribution expenses	**269,279**	264,493	**136,903**	135,025
Administrative expenses	**22,891**	22,550	**11,020**	11,503
Results from operating activities	**6,207**	34,178	**10,280**	34,377
Finance income (note 12)	**4,640**	2,868	**3,878**	2,689
Finance costs (note 12)	**763**	536	**579**	257
Earnings before income taxes	**10,084**	36,510	**13,579**	36,809
Income taxes (note 11)	**2,488**	8,980	**3,397**	9,160
Net earnings	**$ 7,596**	$ 27,530	**$ 10,182**	$ 27,649
Earnings per share (note 13):				
Basic	**$ 0.12**	$ 0.42	**$ 0.16**	$ 0.42
Diluted	**0.12**	0.42	**0.16**	0.42

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

CONDENSED CONSOLIDATED STATEMENTS OF **COMPREHENSIVE INCOME**

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	For the six months ended		For the three months ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Net earnings	**$ 7,596**	$ 27,530	**$ 10,182**	$ 27,649
Other comprehensive income (loss)				
Items that are or may be reclassified subsequently to net earnings:				
Reclassification of impairment loss on available-for-sale financial assets to net earnings (net of tax of $68 for six months and $60 for three months ended August 3, 2013; $14 for six months and three months ended July 28, 2012) (note 12)	**434**	92	**392**	92
Net change in fair value of available-for-sale financial assets (net of tax of $185 for six months and $286 for the three months ended August 3, 2013; $129 for six months and $100 for the three months ended July 28, 2012) (note 12)	**(1,223)**	(888)	**(1,886)**	(691)
Total other comprehensive loss	**(789)**	(796)	**(1,494)**	(599)
Total comprehensive income	**$ 6,807**	$ 26,734	**$ 8,688**	$ 27,050

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

CONDENSED CONSOLIDATED **BALANCE SHEETS**

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	August 3, 2013	July 28, 2012 (note 3a)	February 2, 2013 (note 3a)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (note 4)	**$ 76,559**	$ 160,132	$ 97,626
Marketable securities	**70,432**	70,637	71,630
Trade and other receivables	**3,585**	3,437	3,969
Derivative financial asset (note 5)	**2,475**	268	548
Income taxes recoverable	**5,436**	6,755	8,709
Inventories (note 6)	**116,595**	101,935	93,317
Prepaid expenses	**27,869**	15,272	25,944
Total Current Assets	**302,951**	358,436	301,743
NON-CURRENT ASSETS			
Property and equipment	**193,556**	194,251	205,131
Intangible assets	**17,291**	18,026	19,224
Goodwill	**42,426**	42,426	42,426
Deferred income taxes	**29,003**	25,325	26,444
Total Non-Current Assets	**282,276**	280,028	293,225
Total Assets	**$ 585,227**	$ 638,464	$ 594,968
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade and other payables (note 7)	**$ 81,891**	$ 81,335	$ 69,150
Derivative financial liability (note 5)	**1,256**	556	266
Deferred revenue (note 8)	**10,962**	9,959	16,297
Current portion of long-term debt	**1,620**	1,521	1,570
Total Current Liabilities	**95,729**	93,371	87,283
NON-CURRENT LIABILITIES			
Other payables (note 7)	**11,265**	11,264	11,425
Deferred lease credits	**17,374**	16,599	16,805
Long-term debt	**6,181**	7,801	7,003
Pension liability	**18,336**	15,728	17,559
Total Non-Current Liabilities	**53,156**	51,392	52,792
SHAREHOLDERS' EQUITY			
Share capital (note 9)	**39,227**	39,890	39,227
Contributed surplus	**6,997**	5,694	6,521
Retained earnings	**382,242**	440,176	400,480
Accumulated other comprehensive income (note 9)	**7,876**	7,941	8,665
Total Shareholders' Equity	**436,342**	493,701	454,893
Total Liabilities and Shareholders' Equity	**$ 585,227**	$ 638,464	$ 594,968

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

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

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as at February 3, 2013		$ 39,227	$ 6,521	$ 400,480	$ 8,665	$ 454,893
Total comprehensive income for the period						
Net earnings				7,596		7,596
Total other comprehensive loss					(789)	(789)
Total comprehensive income for the period		–	–	7,596	(789)	6,807
Contributions by and distributions to owners of the Company						
Share-based compensation costs	10		476			476
Dividends	9			(25,834)		(25,834)
Total contributions by and distributions to owners of the Company		–	476	(25,834)	–	(25,358)
Balance as at August 3, 2013		$ 39,227	$ 6,997	$ 382,242	$ 7,876	$ 436,342
Balance as at May 5, 2013		$ 39,227	$ 6,795	$ 384,977	$ 9,370	$ 440,369
Total comprehensive income for the period						
Net earnings				10,182		10,182
Total other comprehensive loss					(1,494)	(1,494)
Total comprehensive income for the period		–	–	10,182	(1,494)	8,688
Contributions by and distributions to owners of the Company						
Share-based compensation costs	10		202			202
Dividends	9			(12,917)		(12,917)
Total contributions by and distributions to owners of the Company		–	202	(12,917)	–	(12,715)
Balance as at August 3, 2013		$ 39,227	$ 6,997	$ 382,242	$ 7,876	$ 436,342

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

(CONTINUED)
(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	Note	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance as at January 29, 2012		$ 39,890	$ 5,158	$ 438,880	$ 8,737	$ 492,665
Total comprehensive income for the period						
Net earnings				27,530		27,530
Total other comprehensive loss					(796)	(796)
Total comprehensive income for the period		–	–	27,530	(796)	26,734
Contributions by and distributions to owners of the Company						
Share-based compensation costs	10		536			536
Dividends	9			(26,234)		(26,234)
Total contributions by and distributions to owners of the Company		–	536	(26,234)	–	(25,698)
Balance as at July 28, 2012		$ 39,890	$ 5,694	$ 440,176	$ 7,941	$ 493,701
Balance as at April 29, 2012		$ 39,890	$ 5,348	$ 425,644	$ 8,540	$ 479,422
Total comprehensive income for the period						
Net earnings				27,649		27,649
Total other comprehensive loss					(599)	(599)
Total comprehensive income for the period		–	–	27,649	(599)	27,050
Contributions by and distributions to owners of the Company						
Share-based compensation costs	10		346			346
Dividends	9			(13,117)		(13,117)
Total contributions by and distributions to owners of the Company		–	346	(13,117)	–	(12,771)
Balance as at July 28, 2012		$ 39,890	$ 5,694	$ 440,176	$ 7,941	$ 493,701

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

CONDENSED CONSOLIDATED STATEMENTS OF **CASH FLOWS**

(UNAUDITED)
(IN THOUSANDS OF CANADIAN DOLLARS)

	For the six months ended		For the three months ended	
	August 3, 2013	**July 28, 2012**	**August 3, 2013**	**July 28, 2012**
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES				
Net earnings	**$ 7,596**	$ 27,530	**$ 10,182**	$ 27,649
Adjustments for:				
Depreciation, amortization and net impairment losses	**32,499**	29,020	**17,503**	15,223
Share-based compensation costs	**476**	536	**202**	346
Amortization of deferred lease credits	**(2,258)**	(2,258)	**(1,082)**	(1,064)
Deferred lease credits	**2,827**	1,540	**1,659**	895
Pension contribution	**(123)**	(239)	**(91)**	(76)
Pension expense	**900**	838	**450**	419
Impairment loss on available-for-sale financial assets	**502**	106	**452**	106
Net change in fair value of derivatives	**(937)**	(466)	**(2,536)**	(552)
Foreign exchange (gain) loss on cash and cash equivalents	**(155)**	854	**(196)**	231
Interest and dividend income, net	**(1,779)**	(2,094)	**(911)**	(1,047)
Interest paid	**(261)**	(308)	**(127)**	(151)
Interest received	**310**	727	**172**	359
Dividends received	**1,734**	1,738	**867**	870
Income tax expense	**2,488**	8,980	**3,397**	9,160
	43,819	66,504	**29,941**	52,368
Changes in:				
Trade and other receivables	**379**	26	**1,977**	1,003
Inventories	**(23,278)**	(8,747)	**(4,342)**	10,850
Prepaid expenses	**(1,925)**	(3,370)	**(2,078)**	(2,942)
Trade and other payables	**12,490**	3,696	**6,503**	1,698
Deferred revenue	**(5,335)**	(12,319)	**(164)**	(3,598)
Cash from operating activities	**26,150**	45,790	**31,837**	59,379
Income taxes received	**650**	4,475	**3**	4,475
Income taxes paid	**(2,306)**	(17,446)	**–**	(6,836)
Net cash flows from operating activities	**24,494**	32,819	**31,840**	57,018
CASH FLOWS USED IN INVESTING ACTIVITIES				
Purchases of marketable securities	**(210)**	(210)	**(105)**	(105)
Additions to property and equipment and intangible assets	**(18,900)**	(41,499)	**(8,794)**	(21,254)
Cash flows used in investing activities	**(19,110)**	(41,709)	**(8,899)**	(21,359)
CASH FLOWS USED IN FINANCING ACTIVITIES				
Dividends paid	**(25,834)**	(26,234)	**(12,917)**	(13,117)
Repayment of long-term debt	**(772)**	(725)	**(390)**	(366)
Cash flows used in financing activities	**(26,606)**	(26,959)	**(13,307)**	(13,483)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN FOREIGN CURRENCY	**155**	(854)	**196**	(231)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(21,067)**	(36,703)	**9,830**	21,945
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**97,626**	196,835	**66,729**	138,187
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**$ 76,559**	$ 160,132	**$ 76,559**	$ 160,132

Supplementary cash flow information (note 14)

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

1 REPORTING ENTITY

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

2 BASIS OF PRESENTATION

A) STATEMENT OF COMPLIANCE

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 2, 2013. Certain comparative figures have been reclassified to conform to the current year's presentation.

These unaudited condensed consolidated interim financial statements were approved for issue by the Board of Directors on September 11, 2013.

B) BASIS OF MEASUREMENT

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

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

C) SEASONALITY OF INTERIM OPERATIONS

The retail business is seasonable 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.

D) FUNCTIONAL AND PRESENTATION CURRENCY

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

E) ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the unaudited condensed consolidated interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and contingent liabilities at the date of the 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.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied and described in the Company's audited annual consolidated financial statements for the year ended February 2, 2013.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended February 2, 2013 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements except as noted below:

A) CHANGES IN ACCOUNTING POLICIES

Fair Value Measurement

In 2011, the IASB issued IFRS 13, *Fair Value Measurement* ("IFRS 13"), which establishes a single framework for the fair value measurement and disclosure of financial and non-financial assets and liabilities. The new standard unifies the definition of fair value and also introduces new concepts including "highest and best use" and "principal markets" for non-financial assets and liabilities. There are additional disclosure requirements, including increased fair value disclosure for financial instruments for interim and annual financial statements. The Company implemented this standard prospectively in the first quarter of the year ended February 1, 2014. There were no measurement impacts on the Company's unaudited condensed consolidated interim financial statements as a result of the adoption of IFRS 13. The Company has included the additional disclosures required by this standard in note 5.

Employee Benefits

In 2011, the IASB revised IAS 19, *Employee Benefits* ("IAS 19"). The most significant amendments for the Company are the requirement to immediately recognize all unvested past service costs and the replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying a prescribed discount rate to the net defined benefit obligation. The Company implemented this standard retrospectively in the first quarter of the year ended February 1, 2014. The impact arising from the adoption of the amendments to IAS 19 is summarized as follows:

Condensed Consolidated Balance Sheets:

	As at July 28, 2012		
	As Presented	Restatements	As Restated
Deferred income tax assets	$ 25,213	$ 112	$ 25,325
Pension liability	$ 15,298	$ 430	$ 15,728
Retained earnings	$ 440,494	$ (318)	$ 440,176

Condensed Consolidated Statement of Earnings and Statement of Comprehensive Income:

	For the six months ended July 28, 2012		
	As Presented	Restatements	As Restated
Earnings before income taxes	$ 36,688	$ (178)	$ 36,510
Income taxes	(9,027)	47	(8,980)
Net earnings	$ 27,661	$ (131)	$ 27,530
Other comprehensive loss	$ (796)	$ –	$ (796)

	For the three months ended July 28, 2012		
	As Presented	Restatements	As Restated
Earnings before income taxes	$ 36,898	$ (89)	$ 36,809
Income taxes	(9,184)	24	(9,160)
Net earnings	$ 27,714	$ (65)	$ 27,649
Other comprehensive loss	$ (599)	$ –	$ (599)

Condensed Consolidated Balance Sheets:

	As at February 2, 2013		
	As Presented	Restatements	As Restated
Deferred income tax assets	$ 26,400	$ 44	$ 26,444
Pension liability	$ 17,390	$ 169	$ 17,559
Retained earnings	$ 400,605	$ (125)	$ 400,480

Condensed Consolidated Statement of Earnings and Statement of Comprehensive Income:

	For the year ended February 2, 2013		
	As Presented	Restatements	As Restated
Earnings before income taxes	$ 35,136	$ (358)	$ 34,778
Income taxes	(8,517)	95	(8,422)
Net earnings	$ 26,619	$ (263)	$ 26,356
Other comprehensive loss	$ (1,133)	$ 326	$ (807)

This new accounting policy did not have a material impact on the condensed consolidated interim statement of cash flows and on the earnings per share.

The amendments also require enhanced annual disclosures for defined benefit plans, including additional information on the characteristics and risks of those plans, which will be included in the Company's 2014 Annual Financial Statements.

B) NEW STANDARDS NOT YET ADOPTED

A number of standards, and amendments to standards and interpretations, are not yet effective for the six months ended August 3, 2013 and have not been applied in preparing these unaudited condensed consolidated interim financial statements. The following standard which may impact the Company in the future is currently under review:

IFRS 9 – Financial Instruments

This standard becomes mandatory for the years commencing on or after January 1, 2015 with earlier application permitted. IFRS 9 is a new standard, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement*. The extent of the impact of adoption of this standard on the unaudited condensed consolidated interim financial statements of the Company has not yet been determined.

4 CASH AND CASH EQUIVALENTS

	August 3, 2013	July 28, 2012	February 2, 2013
Cash on hand and with banks	**$ 13,146**	$ 7,196	$ 9,248
Short-term deposits, bearing interest at 0.9% (July 28, 2012 – 0.8%; February 2, 2013 – 0.6%)	**63,413**	152,936	88,378
	$ 76,559	$ 160,132	$ 97,626

5 FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS

The Company entered into transactions with its bank whereby it purchased call options and sold put options, both on the US dollar ("USD"). These option contracts will expire within the next ten months. Purchased call options and sold put options expiring on the same date have the same strike price. The weighted average strike price for call and put options outstanding is $1.022 (July 28, 2012 – $1.006). The fair values of the foreign currency option contracts are based on broker quotes, which are considered a Level 2 input in the fair value hierarchy.

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

	August 3, 2013			
	Notional Amount in USD	Derivative Financial Asset	Derivative Financial Liability	Net
Call options purchased	$ 90,000	$ 2,475	$ –	$ 2,475
Put options sold	$ 160,000	–	(1,256)	(1,256)
		$ 2,475	**$ (1,256)**	**$ 1,219**

	July 28, 2012			
	Notional Amount in USD	Derivative Financial Asset	Derivative Financial Liability	Net
Call options purchased	$ 22,000	$ 268	$ –	$ 268
Put options sold	$ 44,000	–	(556)	(556)
		$ 268	**$ (556)**	**$ (288)**

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

FINANCIAL ASSETS

The Company has determined that the carrying amount of its short-term financial assets approximate 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 a Level 1 input in the fair value hierarchy.

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.

As at August 3, 2013, the fair value of long-term debt was $8,323 (July 28, 2012 – $10,034; February 2, 2013 – $9,208) compared to its carrying value of $7,801 (July 28, 2012 – $9,322; February 2, 2013 – $8,573).

6 INVENTORIES

During the six months ended August 3, 2013, inventories recognized as cost of goods sold amounted to $170,163 (July 28, 2012 – $173,773). In addition, $1,766 (July 28, 2012 – $1,613) of write-downs of inventory as a result of net realizable value being lower than cost was recognized in cost of goods sold, and no inventory write-downs recognized in previous periods were reversed. Included in inventories is an amount of $34,290 (July 28, 2012 – $39,981; February 2, 2013 – $21,600) representing goods in transit. The July 28, 2012 inventories have been recast to include an adjustment of $21,564, increasing inventory in transit with a corresponding increase in current trade payables.

7 TRADE AND OTHER PAYABLES

	August 3, 2013	July 28, 2012	February 2, 2013
Trade payables	**$ 48,723**	$ 47,978	$ 41,494
Non-trade payables due to related parties	**55**	44	74
Other non-trade payables	**9,265**	12,084	319
Personnel liabilities	**21,955**	17,984	24,443
Payables relating to premises	**12,327**	13,623	13,489
Provision for sales returns	**831**	886	756
	93,156	92,599	80,575
Less non-current portion	**11,265**	11,264	11,425
	$ 81,891	$ 81,335	$ 69,150

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.

8 DEFERRED REVENUE

	August 3, 2013	July 28, 2012	February 2, 2013
Loyalty points and awards granted under loyalty programs	**$ 6,360**	$ 5,631	$ 5,473
Unredeemed gift cards	**4,602**	4,328	10,824
	$ 10,962	$ 9,959	$ 16,297

9 SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

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

	For the six months ended			
	August 3, 2013		July 28, 2012	
	Number of shares (in 000's)	Carrying amount	Number of shares (in 000's)	Carrying amount
Common shares				
Balance at beginning and end of the period	**13,440**	**$ 482**	13,440	$ 482
Class A non-voting shares				
Balance at beginning of the period and end of the period	**51,146**	**38,745**	52,146	39,408
Total share capital	**64,586**	**$ 39,227**	65,586	$ 39,890

AUTHORIZED SHARE CAPITAL

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

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

ISSUANCE OF CLASS A NON-VOTING SHARES

During the six months ended August 3, 2013, there were no Class A non-voting shares issued as a result of the exercise of vested options arising from the Company's share option program (July 28, 2012 – nil).

PURCHASE OF SHARES FOR CANCELLATION

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

ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

AOCI is comprised of the following:

	August 3, 2013	July 28, 2012	February 2, 2013
Net change in fair value of available-for-sale financial assets, net of taxes	**$ 7,876**	$ 7,941	$ 8,665

DIVIDENDS

The following dividends were declared and paid by the Company:

	For the six months ended		For the three months ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Common shares and Class A non-voting shares	**$ 25,834**	$ 26,234	**$ 12,917**	$ 13,117
Dividend per share	**$ 0.40**	$ 0.40	**$ 0.20**	$ 0.20

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 up to 5 years, are at the discretion of the Board of Directors and the options have a maximum term of 10 years. The exercise price payable for each Class A non-voting share covered by a share option is determined by the Board of Directors at the date of grant, but may not be less than the closing price of the Company's shares on the trading day immediately preceding the effective date of the grant.

B) DISCLOSURE OF EQUITY-SETTLED SHARE OPTION PLAN

Changes in outstanding share options were as follows:

	For the six months ended				For the three months ended			
	August 3, 2013		July 28, 2012		August 3, 2013		July 28, 2012	
	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price
Outstanding, at beginning of period	**2,420**	**$ 14.53**	1,945	$ 15.07	**2,370**	**$ 14.52**	1,820	$ 14.98
Granted	**–**	**–**	590	15.00	**–**	**–**	590	15.00
Forfeited	**(94)**	**14.77**	(100)	14.50	**(44)**	**14.50**	(25)	14.50
Expired	**–**	**–**	(50)	19.23	**–**	**–**	–	–
Outstanding, at end of period	**2,326**	**$ 14.53**	2,385	$ 14.99	**2,326**	**$ 14.53**	2,385	$ 14.99
Options exercisable, at end of period	**1,447**	**$ 14.66**	991	$ 15.31	**1,447**	**$ 14.66**	991	$ 15.31

There were no share options exercised during the six months ended August 3, 2013 and July 28, 2012.

C) EMPLOYEE EXPENSE

For the six and three months ended August 3, 2013, the Company recognized compensation costs of $476 and $202 respectively relating to share-based payment arrangements ($536 and $346 for the six and three months ended July 28, 2012), with a corresponding credit to contributed surplus.

11 INCOME TAX

INCOME TAX EXPENSE

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

	For the six months ended		For the three months ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Current period income tax expense	**$ 4,929**	$ 11,063	**$ 4,738**	$ 11,123
Adjustment for prior years' taxes	**–**	(112)	**(3)**	(10)
Current income tax expense	**4,929**	10,951	**4,735**	11,113
Deferred tax recovery prior to adjustment	**(2,311)**	(1,602)	**(1,208)**	(1,584)
Adjustment for provincial tax rate enactments	**(130)**	(369)	**(130)**	(369)
Deferred tax recovery	**(2,441)**	(1,971)	**(1,338)**	(1,953)
Income tax expense	**$ 2,488**	$ 8,980	**$ 3,397**	$ 9,160
Effective income tax rate	**24.67%**	24.60%	**25.02%**	24.89%

12 FINANCE INCOME AND FINANCE COSTS

RECOGNIZED IN NET EARNINGS

	For the six months ended		For the three months ended	
	August 3, 2013	July 28, 2012	**August 3, 2013**	July 28, 2012
Dividend income from available-for-sale financial assets	**$ 1,736**	$ 1,741	**$ 868**	$ 867
Interest income from loans and receivables	**304**	661	**170**	331
Net change in fair value of derivatives	**937**	466	**2,536**	552
Foreign exchange gain	**1,663**	–	**304**	939
Finance income	**4,640**	2,868	**3,878**	2,689
Interest expense – mortgage	**261**	308	**127**	151
Impairment loss on available-for-sale financial assets	**502**	106	**452**	106
Foreign exchange loss	**–**	122	**–**	–
Finance costs	**763**	536	**579**	257
Net finance income recognized in net earnings	**$ 3,877**	$ 2,332	**$ 3,299**	$ 2,432

RECOGNIZED IN OTHER COMPREHENSIVE INCOME

	For the six months ended		For the three months ended	
	August 3, 2013	July 28, 2012	**August 3, 2013**	July 28, 2012
Net change in fair value of available-for-sale financial assets arising during the period (net of tax of $185 for six months and $286 for the three months ended August 3, 2013; $129 for six months and $100 for the three months ended July 28, 2012)	**$ (1,223)**	$ (888)	**$ (1,886)**	$ (691)
Finance costs recognized in other comprehensive income (net of tax)	**$ (1,223)**	$ (888)	**$ (1,886)**	$ (691)

13 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on net earnings for the six and three months ended August 3, 2013 of $7,596 and $10,182, respectively (net earnings of $27,530 and $27,649 for the six and three months ended July 28, 2012).

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

	For the six months ended		For the three months ended	
	August 3, 2013	July 28, 2012	**August 3, 2013**	July 28, 2012
Weighted average number of shares per basic earnings per share calculations	**64,586**	65,586	**64,586**	65,586
Weighted average number of shares per diluted earnings per share calculations	**64,586**	65,586	**64,586**	65,586

As at August 3, 2013, a total of 2,326,250 (July 28, 2012 – 2,385,000) share options were excluded from the calculation of diluted earnings per share as these options were deemed to be anti-dilutive, because the exercise prices were greater than the average market price of the shares during the period.

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.

14 SUPPLEMENTARY CASH FLOW INFORMATION

	August 3, 2013	July 28, 2012	February 2, 2013
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	**$ 1,418**	$ 1,548	$ 1,327

Included in depreciation, amortisation and impairment losses are write-offs of property and equipment related to store closures and asset impairment charges relating to underperforming stores of $4,389 and $3,587 for the six and three months ended August 3, 2013 respectively ($1,618 and $1,303 for six and three months ended July 28, 2012).

15 FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the six months ended August 3, 2013 from those described in the Company's audited annual consolidated financial statements for the year ended February 2, 2013.

REITMANS

Operating **357 STORES** averaging 4,600 sq. ft., Reitmans understands and fulfills the need of every woman of every shape to look and feel beautiful. Canada's largest women's apparel specialty chain and leading fashion brand, Reitmans has developed strong customer loyalty through superior service, insightful marketing and quality merchandise. Reitmans' fashions can also be purchased online at reitmans.com.

SMART SET

With **141 STORES**, averaging 3,400 sq. ft., Smart Set is a style destination where young women come together to inspire and be inspired. From wear-to-work separates, denim, essentials and accessories, we offer the latest styles in women's fashions to mix, match and innovate. Smart Set fashions can also be purchased online at smartset.ca.

RW & CO.

RW & CO. is an aspirational lifestyle brand, which is passionate about Fashion catering to a customer with an urban mindset. Offering fashions for Him and Her that blend the latest trends with style, quality and with a unique attention to detail. RW & CO. operates **74 STORES** averaging 4,500 sq. ft. in premium locations in major shopping malls and an e-commerce site at rw-co.com.

THYME MATERNITY

Thyme Maternity, Canada's leading fashion brand for moms-to-be, offers current styles for every aspect of life, from casual to work, plus a complete line of nursing fashions and accessories. Thyme's unique "full of life experience" delivers future moms valuable advice, fashion tips and product knowledge to help them on the incredible journey during and after pregnancy. Thyme operates **72 STORES** averaging 2,300 sq. ft. in major malls and power centers nationwide, as well as 21 Thyme shop-in-shops in select Babies"R"Us locations in Canada and 158 in Babies"R"Us locations in the United States. Thyme Maternity fashions can also be purchased online at thymematernity.com.

PENNINGTONS

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

ADDITION ELLE

Addition Elle is Canada's leading fashion destination for plus size women. Addition Elle's vision of offering "Fashion Democracy" delivers the latest "must-have" trends to updated fashion essentials in an inspiring shopping environment. From casual daywear to amazing dresses, contemporary career, sexy intimates, accessories, footwear, high performance activewear and the largest assortment of premium denim labels – it's all here. Addition Elle's fashion for plus size women comprises a phenomenal range of fashions for all – always with a focus on fashion, quality and fit. Addition Elle operates **103 STORES** averaging 6,000 sq. ft. in major malls and power centers nationwide and an e-commerce site at additionelle.com.

STORES
ACROSS CANADA

	REITMANS	SMART SET	RW & CO.	THYME	PENNINGTONS	ADDITION ELLE	
NEWFOUNDLAND	14	3	1	-	4	2	24
PRINCE EDWARD ISLAND	3	3	-	-	1	-	7
NOVA SCOTIA	19	4	1	2	7	2	35
NEW BRUNSWICK	14	4	3	1	5	3	30
QUÉBEC	84	41	17	21	27	30	220
ONTARIO	114	49	28	26	55	37	309
MANITOBA	13	4	2	2	6	3	30
SASKATCHEWAN	12	3	2	2	6	3	28
ALBERTA	43	15	10	10	21	16	115
BRITISH COLUMBIA	39	15	10	8	21	7	100
NORTHWEST TERRITORIES	1	-	-	-	-	-	1
YUKON	1	-	-	-	-	-	1
TOTAL	357	141	74	72	153	103	**900** STORES

REITMANS (CANADA) LIMITED

Administration Office
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Stock Symbols
THE TORONTO STOCK EXCHANGE
Common **RET**
Class A non-voting **RET.A**

REITMANS SMART SET RW & CO. THYME PENNINGTONS ADDITION ELLE

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