# ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 29

2012

NEWLOOK

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**Annual General Meeting of Shareholders**
**May 9, 2013 at 10 a.m.**
Fairmont The Queen Elizabeth
900 René-Lévesque Boulevard West
Montréal, Québec

## FOCUS ON OPERATING EFFICIENCIES IN 2012

This is the second complete fiscal year since the corporate structure of the New Look Eyewear was successfully converted from an income trust back into a publicly listed corporation (TSX: BCI) in March 2010.

After several years of strong top line growth in revenues, the mantra for New Look in 2012 was improving operating efficiencies.

## OVERVIEW

Highlights for the year were as follows:

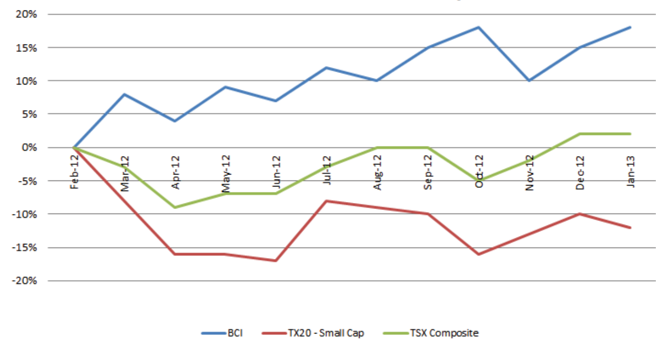
a) Revenues, EBITDA[(a)], cash flows and adjusted net earnings[(b)] hit record levels.
b) While revenues increased moderately, by 2.6%, compared to last year, EBITDA increased by 15.5% to exceed $15 million reflecting the year's focus on improving operating efficiencies.
c) Net earnings increased by 7.5% and consequently net earnings per share[(c)] were $0.63 per share compared to $0.59 last year.
d) Cash flows from operating activities, before changes in working capital items, increased by 14% and consequently the amount per share [(c)] was $1.43 compared to $1.28 last year.
e) During the year, New Look continued to reinvest in its business, with capital expenditures, including acquisitions, exceeding $9.8 million.
f) As a result of its sound basic financial and operating position, the Company was able to maintain a quarterly dividend policy of $0.15 per share ($0.60 per annum).

Finally, during the year, New Look strengthened its senior management team with the hiring of Antoine Amiel as Vice-Chairman.

The above contributed to a strong performance in the trading value of New Look Eyewear's common shares during the year.

## TRADING PERFORMANCE

From January 1st through December 29th, the Company's shares traded in the range of $7.91 to $10.00 per share and closed at $9.39. New Look's solid results allowed its shares to outperform both the TSX Composite Index and the Small Cap Index (TX20).




## OUTLOOK

As noted, the focus in 2012 was on improving operating efficiencies in all areas of operations. An immediate focus in 2013 will be a return to growing the top line, a key component of which will be through acquisitions in Québec and Ontario. This process will be ameliorated under the leadership of Antoine Amiel, the recently appointed Vice-Chairman, Strategic Developments.

The ongoing objective continues to be to build New Look's business, revenues and profitability. This will result in a growing enterprise value of the business as well as sustainable dividends for its shareholders.

New Look, with its successful business model, is well positioned to continue to play a key role into the evolution of the eye care industry in Québec and Ontario and throughout Canada.

## MANAGEMENT TEAM AND BOARD MEMBERS

Congratulations are in order for Martial Gagné, Antoine Amiel and the senior management team at New Look Eyewear Inc., Jean-Luc Deschamps, Mario Pageau, France Reimnitz, Caroline Rouleau, Claire Boulanger and Marie-Josée Mercier. A special thanks, as always, to all New Look Eyewear's many employees who contribute, each of them in their everyday work, to the continuing success of the company. Finally, a special thanks to members of the Board of Directors for their continuing support, guidance and advice.

We are all confident that New Look Eyewear will continue its positive building process in 2013.

**W. John Bennett**
Chairman of the Board
New Look Eyewear Inc.
March 21st, 2013

a) *EBITDA refers to consolidated earnings before interest income and expenses, income taxes, and amortization. It excludes any gain or loss on foreign currency translation (except if related to cost of goods sold), equity-based compensation, and the cost of conversion to a corporation. EBITDA does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other entities. New Look believes that EBITDA is a useful financial metric as it assists in determining the ability to generate cash from operations. Investors should be cautioned that EBITDA should not be construed as an alternative to net income as determined in accordance with IFRS. Refer to the Management's Discussion & Analysis section for more details.*

b) *In management's view, net earnings for 2012 and 2011 can only be compared with net earnings for 2010 by making non-recurrent adjustments related to the corporate conversion that occurred in 2010: adjustment of income tax assets and cost of conversion.*

c) *On a diluted basis.*

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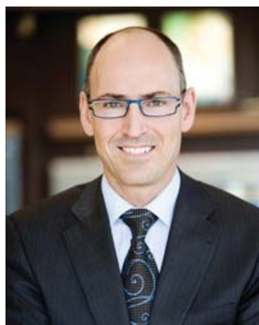
For the year ended December 29, 2012

## 2012 OPERATIONS AND FINANCIAL RESULTS



We are proud of the 2012 results. We recorded record revenues, EBITDA[(a)], adjusted net earnings[(b)] and cash flows. The focus during the year was on operating efficiencies. The results are attributable to the expansion of the store network and greater operational efficiency.

Our store network has expanded by seven stores since the beginning of 2011, including the acquisition of four existing highly reputable eye care clinics which have been converted to the New Look banner. The professionals of these acquired clinics joined New Look's team as they saw an interesting opportunity to continue their professional practice.

Greater operational efficiencies were realized through improved techniques and procedures in our stores and our laboratory, improved merchandise planning and inventory control, and effective utilization of information technology. We achieved a lower level of inventory with a greater number of stores while providing customers with a large selection of fashionable frames. These betterments resulted in cost reduction which was reflected in increased EBITDA and net earnings. Our continuous improvement strategies have been successful and we will continue to apply them. Our sound financial position allows us to focus on the development of our store network and invest in equipment and systems aimed at improving operational efficiency.

## EXPANSION OF STORE NETWORK / NEW MARKETS

New Look is well positioned to play a key role in the evolution of the optical industry in Québec and in Canada through organic geographic expansion, acquisitions and through greater market penetration within its existing store network. With its low net debt / EBITDA ratio of 0.5, net debt / total capitalization ratio of 0.24, and its capital and human resources, we believe that the company has a large growth potential.

New Look is a leading provider of eye care products and services in Eastern Canada. At the date of this report, its network consisted of 71 corporate stores, all of them operating under the same successful format: 63 in the province of Québec and 8 situated in the Ottawa, Ontario region. A priority in 2013 will be acquisitions in the Quebec and Ontario markets.

## PRODUCT INNOVATION AND LABORATORY EXPERTISE

During 2012, New Look acquired the building housing the laboratory, the distribution center and administrative offices. This acquisition allows enlarging the area allocated to the laboratory and distribution center. We expect greater efficiency from the new space layout and greater growth potential.

Our commitment to continuous improvements being always present, we have started the implementation of "lean manufacturing" techniques and optical standards in the laboratory aimed at reducing breakage and lead time. We continue to develop and benefit from the previous years' major innovation in digital manufacturing of progressive lenses: the Evolution HD™, Ultra Evolution HD™ and Ultrafit Evolution HD™ lenses. The HD technology is one of the most significant industry developments in progressive lenses in recent years and offers New Look customers clearer lenses and improved vision at all levels. New Look has been one of the worldwide leaders in successfully merchandising and marketing this new digital technology. This has been possible due to the fact that New Look has one of the most advanced eyewear laboratories in North America leading to its complete control over quality and customer service. The advantage of our laboratory, combined with the other strong elements of our value chain, confirm New Look's leadership position in Québec and Eastern Ontario.

## THE EYEWEAR BUSINESS – A CUSTOMER CARE BUSINESS

Beside all the ingredients that make New Look a successful eye care professional, the way our customers are treated at the eye exam clinics and in our stores make the difference. This difference is the combination of many elements, including personnel training, which engender loyalty, respect and trust from our customers.

Again In 2012, we've served a record number of customers in our network. I would like to thank all New Look employees and all optometrists that contribute every day to our success through their passion and dedication to customers. Also, special thanks to our customers who recognize the quality of our professional services.

More than ever with the changes in the optical industry, personalized service will remain a key ingredient of our positioning and growth.

Finally, I would like to express my sincere thanks to my dynamic management team and the members of the Board of Directors for their valuable contribution.

**Martial Gagné, FCPA, FCMA**
President
New Look Eyewear Inc.
March 21st, 2013

a) *EBITDA refers to consolidated earnings before financial expenses, income taxes, depreciation, amortization and impairment of non-financial assets. It also excludes any gain or loss from changes in fair value of foreign exchange contracts and equity-based compensation. EBITDA does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other entities. Refer to the Management's Discussion & Analysis section for more details.*

b) *In management's view, net earnings for 2012 and 2011 can only be compared with net earnings for 2010 by making non-recurrent adjustments related to the corporate conversion that occurred in 2010: adjustment of income tax assets and cost of conversion.*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 29

2012

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## HIGHLIGHTS

Highlights for the fourth quarters of 2012 and 2011 and the year ended December 29, 2012 compared to 2011 and 2010 fiscal years are as follows:

| | Fourth Quarter | | Year | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2010 |
| Revenues | $20,888 | $22,096 | $82,296 | $80,190 | $70,778 |
| *Variance* | *(5.5%)* | | *2.6%* | *13.3%* | |
| *Comparable stores variance* | *(7.9%)* | | *(1.7%)* | *8.9%* | |
| EBITDA[a] | $4,959 | $3,893 | $15,343 | $13,280 | $10,259 |
| *Variance* | *27.4%* | | *15.5%* | *29.4%* | |
| *% of revenues* | *23.7%* | *17.6%* | *18.6%* | *16.6%* | *14.5%* |
| Adjusted net earnings attributable to shareholders[b] | $2,160 | $1,813 | $6,478 | $6,024 | $4,109 |
| *Variance* | *19.1%* | | *7.5%* | *46.6%* | |
| Net earnings attributed to shareholders | $2,160 | $1,813 | $6,478 | $6,024 | $11,488 |
| Adjusted net earnings per share[b] | | | | | |
| Basic | $0.21 | $0.18 | $0.64 | $0.60 | $0.41 |
| Diluted | $0.21 | $0.18 | $0.63 | $0.59 | $0.41 |
| Net earnings per share | | | | | |
| Basic | $0.21 | $0.18 | $0.64 | $0.60 | $1.15 |
| Diluted | $0.21 | $0.18 | $0.63 | $0.59 | $1.14 |
| Cash flows from operating activities, before changes in non-cash working capital | $4,603 | $3,639 | $14,769 | $13,009 | $9,231 |
| Per share (diluted) | $0.44 | $0.36 | $1.43 | $1.28 | $0.92 |
| Capital expenditures (including Sonomax in 2010)[c] | $1,369 | $1,419 | $9,856 | $6,008 | $5,075 |
| Net debt increase (decrease) in the period[d] | ($1,336) | ($502) | $1,797 | ($3,048) | ($267) |
| Cash dividend per share[e] | $0.150 | $0.150 | $0.600 | $0.600 | $0.462 |
| Total dividends[e] | $1,561 | $1,518 | $6,148 | $6,056 | $4,584 |
| At end of year | | | | | |
| Total assets[f] | | | $47,571 | $45,217 | $45,858 |
| Non-current liabilites[g] | | | $11,503 | $9,941 | $13,165 |
| Net debt[d] | | | $8,282 | $6,485 | $9,533 |
| Number of stores[h] | | | 70 | 68 | 63 |

a) Refer to the section *EBITDA* below for a definition and comments on EBITDA.

b) In management's view, net earnings for 2012 and 2011 can only be compared with net earnings for 2010 by making non-recurrent adjustments related to the corporate conversion that occurred in 2010: adjustment of income tax assets and cost of conversion.

c) Capital expenditures include amounts financed through debt assumptions and balances of purchase price. Refer to the section *Liquidity* for a reconciliation of investments in long-term assets and their financing.

d) Net debt refers to the total of the long-term debt, including the short-term portion, the short-term bank indebtedness, and dividends payable, in excess of cash. The increase in net debt in 2012 is essentially attributable to the borrowing related to the acquisition of the building housing the laboratory, the distribution centre, and administrative offices.

e) The amounts of dividends shown in the table above refer to amounts declared in the periods.

f) The increase in total assets in 2012 compared to 2011 is mainly attributable to the acquisition of the building housing the laboratory, the distribution center and administrative offices. The decrease in total assets in 2011 compared to 2010 is mainly attributable to the use of deferred tax assets.

g) Non-current liabilities are comprised of the long-term portion of the long-term debt, deferred lease inducements, investment tax credits and rent, as shown on the balance sheet.

h) The two stores added in 2012 were made through two acquisitions of optical practices. The five stores added in 2011 included two acquisitions of optical practices.

## 2012 OVERVIEW

Highlights of 2012 can be summarized as follows:

- The Company achieved record revenues and EBITDA in a highly competitive market environment.
- The focus during the year was to increase operating efficiencies after many years of rapid growth. As a result, while revenues increased moderately by 2.6% to in excess of $82 million, EBITDA increased by 15.5% to exceed $15 million.
- Net earnings per share (on a diluted basis) increased to $0.63 from $0.59.
- Cash flows from operations before changes in working capital represented $1.43 per share (on a diluted basis) compared to $1.28 last year.
- The Company made investments totalling $9.9 million including the acquisition of two optical practices, the acquisition of the building housing the laboratory, the distribution center and administrative offices, major renovations to nine stores, the relocation of a store, and continuous updating of optical equipment in stores.
- The strong performance of the Company allowed it to comfortably maintain its quarterly payments of dividends to shareholders of $0.15 per share.

## FOURTH QUARTER OF 2012

The consolidated earnings of the fourth quarter of 2012 compared with the fourth quarter of 2011 are as follows:

| | 2012<br>13 weeks<br>$ | 2011<br>14 weeks<br>$ |
|---|---|---|
| **Revenues** | **20,888** | **22,096** |
| Materials consumed, net of changes in inventory | 4,205 | 4,595 |
| Employee remuneration expense | 6,479 | 6,978 |
| Other operating expenses | 5,262 | 6,763 |
| **Earnings before depreciation, amortization, impairment of non-financial assets and financial expenses** | **4,942** | **3,860** |
| Depreciation, amortization and impairment of non financial assets | 1,430 | 1,350 |
| Financial expenses | 136 | 89 |
| **Earnings before income taxes** | **3,376** | **2,421** |
| Income taxes | | |
| Current | 237 | (50) |
| Deferred | 983 | 660 |
| Total income taxes | 1,220 | 610 |
| **Net earnings and comprehensive income** | **2,156** | **1,811** |
| Net earnings and comprehensive income attributed to: | | |
| Non-controlling interest | (4) | (2) |
| Shareholders of New Look | 2,160 | 1,813 |
| | 2,156 | 1,811 |
| Net earnings per share | | |
| Basic and diluted | 0.21 | 0.18 |

EBITDA for the fourth quarter of 2012 and 2011 reconcile to net earnings as follows:

| | 2012<br>13 weeks<br>$ | 2011<br>14 weeks<br>$ |
|---|---|---|
| Net earnings | 2,156 | 1,811 |
| Depreciation, amortization and impairment of non-financial assets | 1,430 | 1,350 |
| Financial expenses | 136 | 89 |
| Equity-based compensation | 33 | 35 |
| Net loss (net gain) from changes in fair value of foreign exchange contracts | (16) | (2) |
| Income taxes | 1,220 | 610 |
| EBITDA | 4,959 | 3,893 |
| *Variance in $* | *1,066* | |
| *Variance in %* | *27.4%* | |
| *% of revenues* | *23.7%* | *17.6%* |

The main elements of cash flows for the fourth quarter of 2012 compared to the fourth quarter of 2011 are as follows:

| | 2012<br>13 weeks<br>$ | 2011<br>14 weeks<br>$ |
|---|---|---|
| Operating activities | 4,603 | 3,669 |
| Change in working capital items | (691) | 688 |
| Cash flows from operations | 3,912 | 4,357 |
| Investing activities | | |
| Reimbursement of advances | | 50 |
| Withdrawal from (deposit in) escrow | 30 | (100) |
| Purchase of property, equipment and intangibles | (1,271) | (813) |
| Proceeds from disposal of property and equipment | 32 | 99 |
| Business combinations | | (1,293) |
| Payment of balances of purchase price | (51) | (106) |
| Acquisition of intangible assets | (98) | (75) |
| Financing activities | | |
| Repayment of long-term borrowings | (1,799) | (30) |
| Lease inducements | 65 | 132 |
| Issuance of shares pursuant to exercise of options | 1,439 | 121 |
| Loans to purchase shares | (183) | |
| Dividends paid | (1,561) | (3,033) |
| Repurchase of shares | (884) | |
| Interest paid | (121) | (68) |
| Other financial expenses paid | (14) | (14) |
| Decrease in cash | (504) | (773) |

The decrease in revenues, including revenues from comparable stores (those opened before 2011), is partly attributable to the shorter duration of the quarter in 2012 compared to 2011: 13 weeks instead of 14. However EBITDA was much better in the 2012 quarter due to a general decrease in operating expenses including production costs and a favourable year-end adjustment related to a former provision for a lease dispute.

The cash invested in the fourth quarter of 2012 related mainly to the renovations of stores ($1,271,000). The repayment of long-term borrowings ($1,799,000) included $1,750,000 as discretionary repayment on the Evergreen credit. The exercise of stock options by employees triggered the issuance of shares for a total receipt of $1,439,000. The Company also repurchased and cancelled shares with a total cost of $884,000.

## BACKGROUND

Management's Discussion and Analysis ("MD&A") relates to the financial condition, results of operations and cash flows of New Look Eyewear Inc. ("New Look"), a subsidiary and an entity over which New Look has the power to govern the financial and operating policies without owning shares of this entity (New Look, the subsidiary and this entity are together referred to as the "Company"). The non-controlling interest referred to in the financial statements represents the share of this entity in net earnings and net assets.

This MD&A provides prospective data, comments and analyses wherever appropriate to assist readers in viewing the business from corporate management's point of view. The purpose of this MD&A is to provide a better understanding of our activities and should be read in conjunction with the audited consolidated financial statements for the year ended December 29, 2012.

Except where otherwise indicated, all financial information reflected herein is expressed in thousands of Canadian dollars and is determined on the basis of International Financial Reporting Standards (IFRS). Additional information relating to New Look can be found on the website newlook.ca. New Look's continuous disclosure materials, including the annual and quarterly MD&A, annual and quarterly financial statements, annual information forms, proxy solicitation and information circulars and various press releases issued by New Look are also available through the SEDAR system at sedar.com.

## DESCRIPTION OF ACTIVITIES

New Look is a leading provider of eye care products and services in Eastern Canada. As of December 29, 2012, its network consisted of 70 corporately-owned eye care stores: 62 are located in the province of Québec and 8 serve the Ottawa, Ontario region. New Look operates a complete lens processing laboratory and a distribution centre located in Ville St-Laurent, Québec.

## APPROVAL OF THE FINANCIAL STATEMENTS

The Company's consolidated financial statements for the year ended December 29, 2012 have been approved by the Board of Directors upon recommendation of the Audit Committee prior to release.

## ACCOUNTING POLICIES

### YEAR-END

The year-end of the Company is the last Saturday of December. The 2012 fiscal year had 52 weeks while the 2011 fiscal year had 53 weeks.

### NEW POLICY ADOPTED IN 2012

New Look updated its depreciation table to take into account the acquisition of a building in 2012. The cost was spread between the main structure, other components and land. The components are depreciated over periods not exceeding 40 years and the land is not depreciated.

### CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates. These estimates are established on the basis of previous years and management's best judgment. Management continually reviews estimates. Actual results may differ from those estimates. The following paragraphs establish the main estimates used in preparing the consolidated financial statements of the Company.

#### Allowance for obsolescence

Although the Company continuously endeavours to increase the inventory turnover to reduce the risk of obsolescence and improve cash flows, management estimates an allowance for obsolescence regarding slow moving inventories. Such estimates are based on historical experience of inventories liquidated, donated to charities or destroyed.

#### Useful life of property, plant, equipment and intangible assets

In order to allocate the cost of property, plant, equipment and intangible assets, except tradename and goodwill, over their useful lives, estimates of the duration of their useful lives must be carried out. Factors such as risks of obsolescence caused by new technologies and the Company's objective of using state-of-the-art equipment and presenting fashionable stores are taken into account.

#### Allocation of purchase price of a practice

When acquiring a business, management allocates the purchase price to underlying assets as required by the IFRS. With this respect, management identifies intangible assets such as customer relationships, contractual agreements and below-market leases. These assets are valued based on assumptions regarding forecast revenues, operating costs and discounting rates. They are amortized over the estimated period of benefit arising from their use.

#### Provisions

Provisions for warranties are based on historical data.

### Fair value of equity-based compensation

Equity-based compensation, such as stock options granted to employees, is recognized as an expense even if no cash disbursement is required. Stock options granted are measured at fair value at grant date using the method known as the Black-Scholes option pricing model. This model takes into account factors such as expected duration of the option, expected volatility of the underlying security, and expected dividends. The determination of these factors is based on historical experience, financial performance of the Company, development plans of the Company, and the economic environment.

### Asset impairment tests

Accounting standards require making impairment tests on long-lived assets such as property, plant and equipment, intangible assets, tradename and goodwill. The tests involve making assumptions as to discounted future cash flows arising from these assets. Historical data and development plans are the prime source of information used in these circumstances. As per the conclusions of the tests, no impairment was required in 2012 and 2011.

### Income taxes and tax credits

The calculation of the income tax expense and tax credits related to R&D, training or investments requires judgement in determining the activities or expenses giving rise to a deduction or credit. Similar judgement is required in determining the right to use tax losses or credits carried over from past reorganizations. The effects of tax assessments differing from the Company's calculations could be material.

### IFRS ISSUED BUT NOT YET EFFECTIVE

Note 2.3 to the consolidated financial statements lists new, amended or revised IFRS that will be effective after the 2012 fiscal year. They mainly concern: a) the recognition, measurement and disclosures of financial instruments, b) consolidated financial statements and related topics, and c) fair value measurement. Management believes that these new or amended standards will have a very limited impact on the Company's financial statements.

### EXPOSURE DRAFT ON LEASES

The International Accounting Standards Board (IASB) plans to issue a revised exposure draft on leases during the second quarter of 2013. The main purpose of the exposure draft is to put leases on the balance sheet: lessees would then record a right-of-use asset and a lease liability. Management carefully follows the development of this draft exposure as its eventual implementation will have a substantial impact on the financial statements of the Company. The effective date of implementation is uncertain, but experts do not expect it to be before 2016.

## RESULTS OF OPERATIONS

### REVENUES

Revenues for 2012 increased by 2.6% although the fiscal year had only 52 weeks compared to 53 last year. The growth in revenues is principally attributable to stores opened or acquired over the past two years reaching acceptable performance level. The shorter duration of the fiscal year contributed to the decrease of 1.7% in revenues from comparable stores (stores opened before 2011).

The focus during 2012 was on operating efficiencies after many years of rapid growth. As a result, while revenues increased moderately by 2.6 % to in excess of $82 million, EBITDA increased by 15.5% to exceed $15 million.

### OPERATING EXPENSES

Operating expenses for 2012 and 2011 can be compared as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Revenues | 82,296 | 80,190 |
| Materials consumed, net of changes in inventory | 18,254 | 17,895 |
| *% of revenues* | *22.2%* | *22.3%* |
| Employee remuneration | | |
| Salaries and social security costs | 25,317 | 24,831 |
| *% of revenues* | *30.8%* | *31.0%* |
| Equity-based compensation | 216 | 114 |
| Other operating expenses | 23,412 | 24,114 |
| *% of revenues* | *28.4%* | *30.1%* |
| Total operating expenses | 67,199 | 66,954 |
| *% of revenues* | *81.7%* | *83.5%* |
| Write-down of inventories included in materials consumed | 120 | 125 |

Materials consumed comprise frames, lenses and production supplies. The cost of materials includes gains and losses on foreign exchanges related to the purchase of these materials. Expressed as a percentage of revenues, there was no significant change in the cost of materials consumed compared to last year.

The employee remuneration expense includes salaries, bonuses, directors' fees and social security costs of all employees and directors. Most of the expense relates to the store employees including opticians. Other employees are related to the laboratory, the distribution center and the head office. The overall decrease of 0.2 percentage point of revenues is attributable to economies of scale in operations although resources were added in development activities.

Other operating expenses include occupancy costs of stores, laboratory, distribution center and head office, selling and general expenses of stores as well as marketing and administration expenses. Depreciation and amortization are dealt with separately. The above table shows a significant decrease in these other operating expenses of 1.7 percentage point of revenues. This reflects economies of scales, efficient control of expenses and favourable adjustments such as a settlement of a dispute with a landlord.

### EBITDA

New Look defines EBITDA as earnings before financial expenses, income taxes, depreciation, amortization and impairment of non-financial assets. It also excludes any gain or loss from changes in fair value of foreign exchange contracts and equity-based compensation. This definition has been revised this year so as to no longer exclude any gain or loss on foreign currency as the amounts involved tend to offset each other over time.

EBITDA is not a recognized measure under IFRS and may not be comparable to similar measures used by other entities. New Look believes that EBITDA is a useful financial metric as it assists in determining the ability to generate cash from operations.

Investors should be cautioned that EBITDA should not be construed as an alternative to net earnings or cash flows as determined under IFRS. The reconciling items between net earnings and EBITDA are as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Net earnings | 6,496 | 6,045 |
| Depreciation, amortization and impairment of non-financial assets | 4,960 | 4,313 |
| Financial expenses | 432 | 366 |
| Equity-based compensation | 216 | 114 |
| Net loss (gain) from changes in fair value of foreign exchange contracts | 30 | (70) |
| Income taxes | 3,209 | 2,512 |
| EBITDA | 15,343 | 13,280 |
| *Variance in $* | *2,063* | |
| *Variance in %* | *15.5%* | |
| *% of revenues* | *18.6%* | *16.6%* |

EBITDA increased significantly by $2.1 million or 15.5% compared to last year to reach the record amount of $15.3 million. Expressed as a percentage of revenues, EBITDA also reached a record of 18.6%, compared to 16.6% last year. This improvement reflects the impact of the increase in sales and the reduction in the other operating expenses. Refer to *Summary of Quarterly Results* below for comparisons of EBITDA on a quarterly basis.

## DEPRECIATION AND AMORTIZATION

The depreciation and amortization expense varied as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Depreciation of property and equipment | 3,473 | 3,339 |
| Loss on disposal of property | 37 | 6 |
| Impairment of leasehold improvements | 200 | |
| Amortization of intangible assets | 1,262 | 980 |
| Amortization of deferred tax credits related to fixed assets | (12) | (12) |
| | 4,960 | 4,313 |

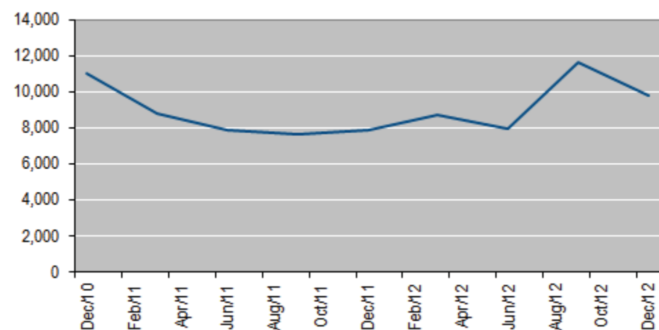
The increase in these expenses reflects, among other things, the addition of seven stores since the beginning of 2011, the acquisition of a building in 2012, and the continuous addition, renewal or updating of the laboratory and store equipment. It is to be noted that a large portion of the cost of the practices acquired in 2011 and 2012 was attributed to intangible assets, such as customer relationships and contractual agreements. These assets, amortized over a period not exceeding five years, have resulted in an increase in the amortization expense. In accordance with the accounting policies adopted, the Company wrote-down the carrying value of certain store leasehold improvements by $200,000.

## FINANCIAL EXPENSES

The following table provides the main elements of financial expenses along with interest revenues for 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Interest on long-term debt | 333 | 315 |
| Interest on bank indebtedness and other interest | 50 | 10 |
| | 383 | 325 |
| Financing fees | 67 | 51 |
| Interest revenues | (18) | (10) |
| | 432 | 366 |

The following graph shows the total balances of long-term debt and short-term bank indebtedness since the beginning of 2011:




Interest charge on the long-term debt increased in 2012 compared to last year as a consequence of a new borrowing of $3 million used for the acquisition of the building housing the laboratory, the distribution center and administrative offices and a temporary increase of $750,000 on the Evergreen credit to finance other capital expenditures. The "other interest" expense includes an amount of $40,000 paid on a reimbursement of tax credits.

As of December 29, 2012, the advances under the "Evergreen" facilities and the new borrowing financing the building represented 91% of the long-term debt and their average financing cost corresponded to 3.27% while the corresponding financing cost one year ago was 3.30%. These debts consisted in bankers' acceptances as management believes it is currently the most appropriate means of financing.

Financing fees relate mainly to standby fees and accrued fees for the revision of the credit facilities. Interest revenues relate to advances.

## GAIN AND LOSS ON FOREIGN CURRENCY TRANSLATION

Gains and losses on foreign currency translation are due to the fluctuation of the US dollar and the euro vis-à-vis the Canadian dollar on assets and liabilities denominated in these currencies and on foreign exchange contracts. The main elements of these assets and liabilities on December 29, 2012 were as follows:

| | | |
|---|---|---|
| Cash | USD | 62 |
| Accounts payable | USD | 496 |
| Accounts payable | EUR | 58 |
| Forward exchange contracts in US $ (assets) | CAD | 23 |

The net loss related to the cost of materials amounted to $63,000 in 2012 ($133,000 in 2011). The other operating expenses include a net loss of $30,000 reflecting the unrealized change in fair value of exchange contracts (net gain of $53,000 in 2011).

Management has established a policy aimed at covering approximately 50% of the purchases in US dollars forecast for the next 12 months through the use of foreign exchange contracts. As of December 29, 2012, foreign exchange contracts to purchase US $1,000,000 at an average rate of 1.015 (USD/CAD) were outstanding, while the spot rate was 0.9964. As hedge accounting is not utilized, changes in fair value of exchange contracts are recognized in earnings.

## INCOME TAXES

The income tax figures may be summarized as follows:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Earnings before income taxes | 9,705 | 8,557 |
| Income tax expense | | |
| Current | 231 | (30) |
| Deferred | 2,978 | 2,542 |
| | 3,209 | 2,512 |
| Effective tax rate | 33.1% | 29.4% |
| Combined federal and provincial statutory rate | 26.9% | 28.4% |
| Deferred tax assets at end of year | 1,736 | 3,289 |

The difference in the effective tax rate and the combined federal and provincial statutory rate in 2012 is attributable to non-deductible expenses, adjustments to non-deductible intangible assets, and adjustments to prior years' tax credits. The current tax expense in 2012 corresponds to repayments of tax credits acquired upon the corporate conversion in 2010. The deferred income tax expense corresponds to the use of tax losses carried forward.

Last year's difference in the effective tax rate and the combined federal and provincial statutory rate was attributable to non-deductible expenses and an adjustment to the value of income tax assets taking into account tax assessments for prior years.

## NET EARNINGS

Net earnings for 2012 and 2011 can be compared as follows:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Net earnings attributed to shareholders | 6,478 | 6,024 |
| *Variance in $* | 454 | |
| *Variance in %* | 8% | |
| *% of revenues* | 7.9% | 7.5% |
| Net earnings per share | | |
| Basic | 0.64 | 0.60 |
| Diluted | 0.63 | 0.59 |

The improvement of net earnings reflects the increase in EBITDA, tempered by increases in depreciation, amortization, financial expenses and income taxes. The net earnings per share, whether basic or diluted, show an increase of $0.04.

## SUMMARY OF QUARTERLY RESULTS

The following table summarizes unaudited quarterly results for the year ended December 29, 2012 compared with the corresponding quarters of 2011.

| | December | | September | | June | | March | | 4 Quarters | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | 13 weeks | 14 weeks | 13 weeks | 13 weeks | 13 weeks | 13 weeks | 13 weeks | 13 weeks | 52 weeks | 53 weeks |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Revenues | 20,888 | 22,096 | 20,032 | 19,516 | 21,268 | 19,461 | 20,108 | 19,117 | 82,296 | 80,190 |
| *As a % of the four-quarter revenues* | *25.4%* | *27.6%* | *24.3%* | *24.3%* | *25.8%* | *24.3%* | *24.4%* | *23.8%* | *100%* | *100%* |
| EBITDA | 4,959 | 3,908 | 3,361 | 2,646 | 3,998 | 3,379 | 3,025 | 3,364 | 15,343 | 13,297 |
| *As a % of revenues* | *23.7%* | *17.6%* | *16.8%* | *13.6%* | *18.8%* | *17.4%* | *15.0%* | *17.6%* | *18.6%* | *16.6%* |
| Net earnings attributed to shareholders | 2,160 | 1,813 | 1,194 | 1,000 | 1,953 | 1,613 | 1,171 | 1,598 | 6,478 | 6,024 |
| Operating cash flows before changes in working capital | 4,603 | 3,659 | 3,292 | 2,630 | 3,945 | 3,510 | 2,929 | 3,210 | 14,769 | 13,009 |
| Net earnings per share[(a)] | | | | | | | | | | |
| Basic | 0.21 | 0.18 | 0.12 | 0.10 | 0.19 | 0.16 | 0.12 | 0.16 | 0.64 | 0.60 |
| Diluted | 0.21 | 0.18 | 0.12 | 0.10 | 0.19 | 0.16 | 0.11 | 0.16 | 0.63 | 0.59 |
| Operating cash flows per share, before changes in working capital, diluted[(b)] | 0.44 | 0.36 | 0.32 | 0.26 | 0.38 | 0.35 | 0.29 | 0.32 | 1.43 | 1.28 |
| Dividend per share | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.15 | 0.60 | 0.60 |

a) Net earnings per share for four quarters may not correspond to the total of quarterly net earnings per share, as a distinct calculation is made for each quarter or four-quarter period.

b) Operating cash flows per share for four quarters may not correspond to the total of quarterly operating cash flows as a distinct calculation is made for each quarter or four-quarter period.

Overall, revenues, EBITDA, net earnings attributable to shareholders, and operating cash flows before changes in working capital increased in the trailing 4-quarter period ended December 29, 2012 compared with the preceding trailing 4-quarter period.

## LIQUIDITY

The following table shows the main elements of the statement of cash flows for the years 2012 and 2011:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Operating activities | 14,769 | 13,009 |
| Change in working capital items | (1,992) | 1,763 |
| Cash flows from operations | 12,777 | 14,772 |
| Investing activities | | |
| Reimbursements of loans (loans) | (200) | 50 |
| Withdrawal from (deposit in) escrow | 30 | (100) |
| Purchase of property, plant and equipment | (8,789) | (3,841) |
| Proceeds from the disposal of property | 158 | 99 |
| Business combinations | (410) | (1,293) |
| Payment of balances of purchase price | (305) | (439) |
| Acquisition of other intangible assets | (221) | (305) |
| Financing activities | | |
| Long-term borrowing | 3,750 | |
| Repayment of long-term borrowings | (1,904) | (3,123) |
| Lease inducements | 65 | 178 |
| Issuance of shares | 2,787 | 502 |
| Loans to purchase shares | (183) | (188) |
| Dividends paid | (6,148) | (6,056) |
| Repurchase of shares | (884) | |
| Interest and financing fees paid | (407) | (334) |
| Increase (decrease) in cash | 116 | (78) |
| Cash at beginning of period | 1,418 | 1,496 |
| Cash at end of period | 1,534 | 1,418 |

### CASH FLOWS FROM OPERATIONS

The increases in cash generated from operating activities before changes in working capital items compared to last year are in line with the increases in revenues, EBITDA and net earnings. Cash was also generated (or used) by the variation of the following working capital items:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Increase in receivables | (438) | (228) |
| Decrease (increase) in tax credits receivable | (96) | 102 |
| Decrease (increase) in inventory | 256 | (200) |
| Decrease (increase) in prepaid expenses | (16) | 151 |
| Increase (decrease) in accounts payable, accrued liabilities and provisions | (1,698) | 1,938 |
| Source (use) of cash | (1,992) | 1,763 |

The decrease in accounts payable, accrued liabilities and provisions in 2012 reflects normal seasonal variations.

### INVESTING ACTIVITIES

Investing activities in 2012 related to the following expenditures:

- The acquisition of the building, located in Ville St-Laurent, housing the laboratory, the distribution center and offices used by New Look;
- the acquisition of two optical practices in the Greater Montreal Area;
- major renovations to seven stores and the relocation of an existing store, for amounts totalling $2.3 million;
- the acquisition of IT hardware for the point-of-sales project; and
- the continuous updating of optical equipment.

The investment in the building represented $4.3 million. In management's view, this strategic acquisition will allow New Look to operate the laboratory and the distribution center with greater efficiency and will leave room for expansion for the years to come. It also constitutes a hard asset investment which in the long-term will reduce occupancy costs.

The payment of balances of purchase price refers to prior years' business acquisitions.

The advance of $200,000 in 2012 is commented on in the section *Related Party Transactions.*

The following table reconciles the investments in long-term assets and their financing:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Assets acquired through business combinations | 846 | 1,826 |
| Purchase of property, plant and equipment | 8,789 | 3,872 |
| Purchase of intangibles | 221 | 310 |
| Total capital expenditures | 9,856 | 6,008 |
| Debt assumptions | 82 | 22 |
| Balances of purchase price | 247 | 373 |
| Deferred income tax liabilities | 107 | 174 |
| Payments in the year | 9,420 | 5,439 |
| Total financing of capital expenditures | 9,856 | 6,008 |

Assets acquired through two business acquisitions in 2012 consisted of the following: inventory, equipement, leasehold improvements, customer relationships, contractual obligations, and goodwill.

## FINANCING ACTIVITIES

In 2012, the Company borrowed, through bankers' acceptances, $3 million under the additional credit facilities for the purchase of the building in Ville St-Laurent. In the year, New Look also borrowed, through bankers' acceptances, $750,000 under the "Evergreen" credit to finance other capital expenditures.

Repayments of long-term borrowings included discretionary repayments totalling $1,750,000 on the Evergreen credit. Other repayments were made as scheduled, including the new monthly repayments related to the financing of the building.

Issuance of shares to directors, executives and other employees who exercised options under the option plan represented cash receipts of $2,787,000 in 2012. New Look, during the fourth quarter, repurchased and cancelled shares at a total cost of $884,000. Refer to the section *Outstanding Shares and Options* for other details.

Loans to purchase shares is commented on in the section *Related Party Transactions.*

Dividends paid in 2012, totalling $6,148,000, correspond to the dividends declared in March, June, September and December. Management considers that these dividends were financed through the operating activities.

Amounts paid as interest and financing fees are commented on in the section *Financial expenses.*

At the end of the period, the Company had no amount outstanding as short-term bank indebtedness out of the operating line of credit of $2.5 million.

Most new leases provide for the payment of inducements by the landlords to New Look. These inducements represented a source of cash of $65,000 in 2012.

## CREDIT FACILITIES

### Basic credit facilities

The main elements of the basic credit facilities with the bank are the following:

- An operating line of credit to finance day-to-day operations of a maximum amount of $2.5 million depending on the value of receivables and inventory.
- An "Evergreen" credit of $12 million to finance capital expenditures with a revolving term renewable annually. In 2012, the bank confirmed the extension of the term from May 31, 2013 to May 31, 2014, so as to maintain a revolving term of two years. No payment of capital is required during a revolving period.
- A credit for a maximum net risk of $900,000 to manage interest rate risk by using treasury product derivatives such as interest rate swap agreements.

Advances on the operating line of credit bear interest at prime rate plus a premium varying from 0.5% to 1.0% depending on the ratio of interest-bearing debt to EBITDA. As of December 29, 2012, the interest rate was 3.5% (prime of 3% plus a premium of 0.5%), the same rate as of the end of 2011. Although the Company has the option of using the operating line of credit through bankers' acceptances, it has not done so as the balance of the credit used varies daily.

Advances on the Evergreen credit bear interest at a floating rate and may be granted through bankers' acceptances. New Look used this option for all the advances outstanding at the end of 2012. The cost of financing through bankers' acceptances depends on market rates and stamping fees. The cost of financing through the Evergreen credit as of December 29, 2012 was 3.37% (3.30% as of December 31, 2011).

### Additional credit facilities

In 2012, additional credit facilities of $3 million were obtained for the acquisition of the building in Ville St-Laurent mentioned above. These facilities consist in a five-year term loan with monthly payments of capital of $12,500, the balance maturing in 2017. The Company has the option between a variable interest rate, a fixed-rate term to be determined with the bank, or bankers' acceptances. Bankers' acceptances with an effective cost of 3.07% are currently in use. This new debt is guaranteed by a hypothec on the building acquired.

As of December 29, 2012, the credit facilities actually used and available were as follows:

| | $ |
|---|---|
| Credit used | |
| Amounts drawn on the operating line of credit | Nil |
| Amounts drawn on the Evergreen credit to finance long-term assets | 6,000 |
| Balance of a term-loan on special facilities to finance the purchase of an immovable property | 2,925 |
| Credit available | 8,500 |
| Total credit facilities | 17,425 |

The Company also had $1,534,000 in cash at the end of the year and it was in compliance with all covenants governing the credit facilities.

## CONTRACTUAL OBLIGATIONS

The contractual obligations of the Company are summarized in the following table:

| | | Payments due | | | | | |
|---|---|---|---|---|---|---|---|
| Contractual obligations | Total | 2013 | 2014 | 2015 | 2016 | 2017 | Therafter |
| Long-term debt[(a)] | 9,816 | 712 | 1,295 | 1,709 | 1,650 | 3,825 | 625 |
| Operating leases | 35,388 | 8,837 | 7,628 | 6,374 | 5,049 | 3,563 | 3,937 |
| Purchase obligations[(b)] | 396 | 396 | | | | | |
| Total | 45,600 | 9,945 | 8,923 | 8,083 | 6,699 | 7,388 | 4,562 |

a) Long-term debt includes advances of $6,000,000 under the "Evergreen credit". Although management expects that the Evergreen credit will be renewed annually, the above table assumes a reimbursement of this debt in 48 equal monthly instalments beginning in June 2014.

b) Purchase obligations relate to capital expenditures.

## CAPITAL COMMITMENTS

Commitments for capital expenditures as of the end of 2012 amounted to $396,000 and related to the addition of a store in the beginning of 2013 and the acquisition of software. The Company's capital projects are mentioned in the *Outlook* section.

## CAPACITY TO MEET OBLIGATIONS

Management determines the capacity of New Look to meet its obligations by an analysis of past and forecast cash flows, bank line of credit covenant ratios and other ratios. The following shows a summary of important guidelines used by management and the resulting performance:

| | Guidelines | Dec 29, 2012 | Dec 31, 2011 |
|---|---|---|---|
| Net debt[(a)] / total capitalization[(b)] | Maximum of 0.50 | 0.24 | 0.21 |
| | | Four quarters ended Dec 29, 2012 | Four quarters ended Dec 31, 2011 |
| Net debt / EBITDA | Maximum of 2.0 | 0.5 | 0.5 |
| Debt service and rent coverage ratio[(c)] | Minimum of 1.1 | 1.9 | 1.8 |

a) Net debt corresponds to the total of long-term debt, including the short-term portion, the short-term bank indebtedness, and dividends payable, in excess of cash.

b) Total capitalization corresponds to the total of equity and net debt.

c) The debt service and rent coverage ratio is equal to: EBITDAR for the last four quarters less dividends, redeemed shares and paid taxes in these quarters / short-term portion of long-term debt, financial expenses and rent. EBITDAR is defined as EBITDA plus rent.

The ratio of net debt to total capitalization increased from 0.21 to 0.24 as a consequence of new debt related to the acquisition of two optical practices and the acquisition of the St-Laurent building. All ratios are well within the guidelines established by management and approved by the Board of Directors.

Furthermore, New Look constantly maintains and updates both its stores and production facilities in order to preserve and enhance the cash flows from operations. Out of the 70 stores at December 29, 2012, 56 were renovated or constructed over the last six years.

Cash flows from operations and the credit facilities are expected to be sufficient to meet operating requirements, maintenance capital expenditures, expansion capital expenditures, reimbursement of long-term debts, as well as declared dividends.

## DIVIDENDS

The following table summarizes the dividends per Class A common share paid in 2012:

| Date of Record | Date of Payment | Eligible Dividend | Ordinary Dividend | Total |
|---|---|---|---|---|
| December 17, 2012 | December 31, 2012 | 0.145 | 0.006 | 0.15 |
| September 19, 2012 | September 30, 2012 | 0.15 | | 0.15 |
| June 20, 2012 | June 30, 2012 | 0.15 | | 0.15 |
| March 22, 2012 | March 31, 2012 | 0.15 | | 0.15 |
| | | | | 0.60 |

All dividends, except for a small amount, qualified as eligible dividends, i.e. dividends entitling shareholders who are individuals residing in Canada to a higher dividend tax credit.

On March 7, 2013, the Company declared a dividend of $0.15 per Class A common share payable on March 31, 2013 to shareholders of record on March 21, 2013.

The decision to declare a dividend is made quarterly when the financial statements for a quarter or a financial year are made available to the Board of Directors. Although there is no guarantee that a dividend will be declared in the future, New Look and its predecessor, Benvest New Look Income Fund, regularly paid a dividend or distribution since 2005.

## RELATED PARTY TRANSACTIONS

The Company's related parties include key management and directors. Key management is composed of the President and the vice presidents.

Over 2011 and 2012, New Look made three loans totalling $571,000 to companies owned by senior officers for the purchase of shares of New Look. The loans bear interest at 5% per annum, are guaranteed by the assets of the companies, and are repayable from 2014 through 2017. Two of the loans amounting to $371,000, are presented as a reduction of share capital and the future repayment will increase it. These two loans gave rise to an expense of $21,000 in 2012 and $21,000 in 2011 as an equity-based compensation.

Stock options are essentially granted to key management and directors. See the next section for more details on options granted and exercised and on the repurchase of shares.

## OUTSTANDING SHARES AND OPTIONS

As of February 28, 2013, New Look had 10,399,032 Class A common shares outstanding. These are the only shares giving right to dividends and to vote at any shareholders' meeting.

In 2012, 301,000 options to purchase New Look shares at the average exercise price of $9.03 per share were granted. The exercise price reflects the market value of the shares for the five business days preceding the grant date. All outstanding options will expire five years after the grant date. The maximum number of units issuable upon the exercise of options at any given time is 10% of shares outstanding. As of February 28, 2012, there were 614,967 options outstanding for an average exercise price of $7.94. As of the same date, the balance of shares reserved by the TSX for issuance upon exercise of options was 633,373. The market value of the Class A common shares was as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Average market value | 8.96 | 7.76 |
| Market value at end of year | 9.39 | 7.95 |

## FINANCIAL INSTRUMENT RISK MANAGEMENT

The Company's financial instruments are classified as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| **Loans and receivables** | | |
| Cash | 1,534 | 1,418 |
| Trade accounts receivable | 806 | 487 |
| Lease inducements receivable | 15 | |
| Advances, included with receivables | 30 | 36 |
| Loans and advances | 300 | 130 |
| Total financial assets | 2,685 | 2,071 |
| **Other financial liabilities** | | |
| Customers' deposits | 1,395 | 1,556 |
| Suppliers | 4,043 | 5,292 |
| Long-term debt including current portion | 9,816 | 7,903 |
| Total financial liabilities | 15,254 | 14,751 |

Details of financial instrument risk management objectives and policies are described under Note 25 to the consolidated financial statements for 2012. Other comments follow:

- Exchange risk related to assets and liabilities denominated in foreign currencies is commented above in the section *Gain and loss on foreign currency translation*. Regarding purchases of goods in foreign currencies, New Look is subject to the fluctuations of the US dollar and euro vis-à-vis the Canadian dollar. New Look may not always be in a position to adjust the sales price reflecting a variation in costs. Management has established a policy of covering approximately 50% of the purchases in US dollars forecast for the next 12 months through the use of foreign exchange contracts.
- Interest rate risk arises from the fact that 91% of the long-term debt bears interest at a floating rate through bankers' acceptances. Management believes that under the current economic situation and the Company's financial position, this form of financing will benefit to the Company for the years to come. Nevertheless, management intends to maintain at all times the possibility of using interest rate swaps when it will deem it appropriate.
- The liquidity risk management is covered above in the section *Liquidity*.

## OTHER RISK FACTORS

Readers will find more information on other risk factors in the Annual Information Form which is available on New Look's website and on SEDAR at www.sedar.com. The information provided includes:

- Risks relating to the business such as:
  - Reliance on the availability of optometrists and other professionals,
  - Competition, including e-commerce,
  - Violation of confidential health information,
  - Impact of laser surgery,
  - Technological change and obsolescence regarding lens processing,
  - Dependence on computer-assisted production equipment and information technology systems,
  - Difficulty of integrating acquired businesses,
  - Foreign sourcing, and
  - Non-compliance with laws and regulations regarding optometrists and opticians.
- Risks relating to acquisition of Sonomax such as:
  - Third party credit, contractual and operational risks,
  - Due diligence risks,
  - Reliance on the indemnity agreement, pertaining to tax credits and other matters.
- Risks relating to New Look shares such as:
  - Unpredictability and volatility of the shares,
  - No guarantee of dividends,
  - Leverage and restrictive covenants.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

New Look's management, under the supervision of the president and the chief financial officer, has evaluated the effectiveness as at December 29, 2012 of New Look's disclosure controls and procedures (as defined in Multilateral Instrument 52-109) and has concluded that such disclosure controls and procedures are effective and that material information relating to the Company was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Management is also responsible for the design of internal control over financial reporting (as defined in Multilateral Instrument 52-109) within the Company in order to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements for external purposes in accordance with IFRS. New Look's management, under the supervision of the president and the chief financial officer, has evaluated the effectiveness as at December 29, 2012 of such internal control and has concluded that it is effective. There were no changes in internal control over financial reporting during the period beginning on September 30, 2012 and ended December 29, 2012 that have materially affected, or are reasonably expected to materially affect the internal control over financial reporting.

## OUTLOOK

Management believes that New Look is well positioned to play a key role in the evolution of the eye care industry in Canada. Our current development plans include the following objectives:

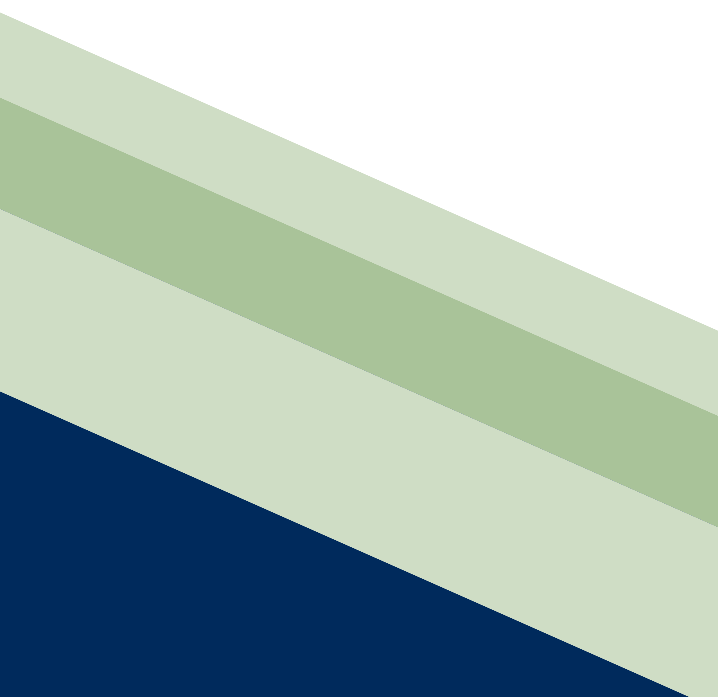
- To continue to expand the store network in its target markets, through new store openings and the acquisition of individual optical practices;
- To continue to reinvest in the existing store network through major renovations (including relocations) to keep the portfolio contemporary and attractive and a leader in the marketplace;
- To continue to explore more significant acquisitions in Québec and across Canada;
- To increase our market position by an expansion and continual modernization of our state-of-the-art laboratory, aggressive marketing, availability of optometrists, and well-trained personnel;
- To continue to improve the efficiency of our operations by significant investments in a new point-of-sales system;
- To continue to improve our web-related platform for eye exam appointments, contact lens sales orders and greater information to the public through our internet window display and newsletter on eyewear fashion trends.

Overall capital expenditures currently planned for 2013 exceed $5 million, including the enlargement of our laboratory and distribution center, the opening of new stores, renovations to existing stores, new store acquisitions and continuous additions to in-store optical equipment.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such statements. Although management believes the expectations reflected in those statements are reasonable, there can be no assurance that such expectations will prove to be correct.

March 7th, 2013



NEWLOOK

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# CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 29

2012

NEWLOOK

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# Management's Responsibility for Financial Statements

For the years ended December 29, 2012 and December 31, 2011



The consolidated financial statements of New Look Eyewear Inc. ("New Look") and the other financial information included in the annual report are the responsibility of the management and have been approved by the Board of Directors of New Look. The consolidated financial statements have been prepared by management in accordance with International Financial Accounting Standards and include amounts that are based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

New Look has maintained internal control systems designed to ensure that financial information is relevant and accurate and that assets are protected.

Management recognizes its responsibility for conducting New Look's affairs in a manner to comply with the requirements of applicable laws and of established financial standards and principles and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the financial reporting process for the preparation of financial statements and other financial information through its Audit Committee, whose members are exclusively non-management directors. This committee's role is to review the financial statements and recommend approval to the Board of Directors and to review internal control and information protection systems and all other matters relating to New Look's accounting and finances. In order to do so, the Audit Committee meets periodically with the external auditor to review its audit plan and to discuss the results of its examination. This committee is also responsible for recommending the appointment of the external auditor.

New Look's external auditor, Raymond Chabot Grant Thornton LLP, appointed by the shareholders at the annual general meeting, has audited the financial statements and his report on the financial statements follows.

*(Signed by) Martial Gagné*

**MARTIAL GAGNÉ**
President
New Look Eyewear Inc.

March 7th, 2013

*(Signed by) Jean-Luc Deschamps*

**JEAN-LUC DESCHAMPS**
Chief Financial Officer
New Look Eyewear Inc.

March 7th, 2013

Raymond Chabot Grant Thornton

## Independent Auditor's Report

**Raymond Chabot Grant Thornton** LLP
Suite 2000
National Bank Tower
600 De La Gauchetière Street West
Montréal, Quebec H3B 4L8

Telephone: 514-878-2691
Fax: 514-878-2127
www.rcgt.com

To the Shareholders of
New Look Eyewear Inc.

We have audited the accompanying consolidated financial statements of New Look Eyewear Inc., which comprise the consolidated balance sheets as at December 29, 2012 and December 31, 2011 and the consolidated statements of earnings and comprehensive income, the consolidated statements of cash flows and the consolidated statements of changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditor's responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of New Look Eyewear Inc. as at December 29, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Raymond Chabot Grant Thornton LLP [1]

Montreal
March 7, 2013

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[1] CPA auditor, CA public accountancy permit no. A121855

# Consolidated Statements of Earnings and Comprehensive Income



For the years ended December 29, 2012 (52 weeks) and December 31, 2011 (53 weeks)
In thousands of Canadian dollars, except per share amounts

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **Revenues** | **82,296** | **80,190** |
| Materials consumed, net of changes in inventory | 18,254 | 17,895 |
| Employee remuneration expense (Note 4) | 25,533 | 24,945 |
| Other operating expenses | 23,412 | 24,114 |
| **Earnings before depreciation, amortization, impairment of non-financial assets and financial expenses** | **15,097** | **13,236** |
| Depreciation, amortization and impairment of non-financial assets | 4,960 | 4,313 |
| Financial expenses (Note 3) | 432 | 366 |
| **Earnings before income taxes** | **9,705** | **8,557** |
| Income taxes (Note 16) | | |
| Current | 231 | (30) |
| Deferred | 2,978 | 2,542 |
| Total income taxes | 3,209 | 2,512 |
| **Net earnings and comprehensive income** | **6,496** | **6,045** |
| Net earnings and comprehensive income attributed to: | | |
| Non-controlling interest | 18 | 21 |
| Shareholders of New Look | 6,478 | 6,024 |
| | 6,496 | 6,045 |
| Net earnings per share (Note 5) | | |
| Basic | 0.64 | 0.60 |
| Diluted | 0.63 | 0.59 |

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

# Consolidated Statements of Cash Flows

For the years ended December 29, 2012 (52 weeks) and December 31, 2011 (53 weeks)
In thousands of Canadian dollars

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Earnings before income taxes | 9,705 | 8,557 |
| Items not affecting cash: | | |
| Depreciation, amortization and impairment of non-financial assets | 4,960 | 4,313 |
| Amortization of deferred lease inducements and variation of deferred rent | (251) | (277) |
| Future tax credits related to research and development expenses | (71) | (91) |
| Equity-based compensation expense | 216 | 114 |
| Financial expenses | 450 | 376 |
| Income taxes recovered (paid) | (240) | 17 |
| Cash flows related to operating activities before changes in working capital items | 14,769 | 13,009 |
| Changes in working capital items (Note 6) | (1,992) | 1,763 |
| **Cash flows related to operating activities** | **12,777** | **14,772** |
| **INVESTING ACTIVITIES** | | |
| Reimbursement of loans (loans) (Note 9) | (200) | 50 |
| Withdrawal from (deposit in) escrow (Note 9) | 30 | (100) |
| Acquisitions of property, plant and equipment (Note 10) | (8,789) | (3,841) |
| Proceeds from the disposal of property, plant and equipment | 158 | 99 |
| Business combinations (Note 7) | (410) | (1,293) |
| Payment of balances of purchase price | (305) | (439) |
| Acquisitions of other intangible assets (Note 12) | (221) | (305) |
| **Cash flows related to investing activities** | **(9,737)** | **(5,829)** |
| **FINANCING ACTIVITIES** | | |
| Long-term borrowings | 3,750 | |
| Repayment of long-term borrowings | (1,904) | (3,123) |
| Lease inducements | 65 | 178 |
| Issuance of shares pursuant to exercise of options | 2,787 | 502 |
| Loans to purchase shares (Note 20) | (183) | (188) |
| Dividends paid (Note 17) | (6,148) | (6,056) |
| Repurchase of shares (Note 18) | (884) | |
| Interest paid | (340) | (283) |
| Other financial expenses paid | (67) | (51) |
| **Cash flows related to financing activities** | **(2,924)** | **(9,021)** |
| Net increase (decrease) in cash | 116 | (78) |
| Cash, beginning of period | 1,418 | 1,496 |
| Cash, end of period | 1,534 | 1,418 |

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

# Consolidated Balance Sheets

In thousands of Canadian dollars

NEWLOOK lunetterie • eyewear

| | December 29, 2012 | December 31, 2011 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current assets** | | |
| Cash | 1,534 | 1,418 |
| Receivables (Note 8) | 1,533 | 1,080 |
| Tax credits receivable | 158 | 15 |
| Inventory | 7,503 | 7,699 |
| Prepaid expenses | 318 | 302 |
| **Total current assets** | **11,046** | **10,514** |
| Loans and advances (Note 9) | 300 | 130 |
| Property, plant and equipment (Note 10) | 22,960 | 17,887 |
| Tradename (Note 11) | 2,500 | 2,500 |
| Goodwill (Note 11) | 6,397 | 6,147 |
| Other intangible assets (Note 12) | 2,632 | 3,289 |
| Deferred tax assets (Note 16) | 1,736 | 4,750 |
| **Total assets** | **47,571** | **45,217** |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable, accrued liabilities and provisions (Note 14) | 8,958 | 10,656 |
| Income taxes payable | | 9 |
| Instalments on long-term debt | 712 | 497 |
| **Total current liabilities** | **9,670** | **11,162** |
| Long-term debt (Note 15) | 9,104 | 7,406 |
| Deferred lease inducements, investment tax credits and rent | 2,399 | 2,535 |
| **Total liabilities** | **21,173** | **21,103** |
| **EQUITY** | | |
| Class A common shares (Note 18) | 24,908 | 22,162 |
| Contributed surplus | 549 | 1,359 |
| Retained earnings | 867 | 537 |
| **Equity attributable to the shareholders of New Look** | **26,324** | **24,058** |
| Non-controlling interest | 74 | 56 |
| **Total equity** | **26,398** | **24,114** |
| **Total liabilities and equity** | **47,571** | **45,217** |

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

On behalf of the Board of Directors

*(signed by) W. John Bennet*

**W. John Bennett**
Chairman of the Board

*(Signed by) Paul S. Echenberg*

**Paul S. Echenberg**
Chairman of the Audit Committee

# Consolidated Statements of Changes in Equity

For the years ended December 29, 2012 (52 weeks) and December 31, 2011 (53 weeks)
In thousands of Canadian dollars, except the number of shares

| | Class A common shares | | Contributed surplus | Retained earnings | Shareholders' equity | **Non-controlling interest** | Total equity |
|---|---|---|---|---|---|---|---|
| | Number | $ | $ | $ | $ | **$** | $ |
| Balance at January 1, 2012 | 10,118,732 | 22,162 | 1,359 | 537 | 24,058 | **56** | 24,114 |
| Net earnings | | | | 6,478 | 6,478 | **18** | 6,496 |
| | 10,118,732 | 22,162 | 1,359 | 7,015 | 30,536 | **74** | 30,610 |
| Equity-based compensation | | | 216 | | 216 | | 216 |
| Shares issued pursuant to the exercice of options (Notes 18 and 19) | 378,500 | | | | | | |
| Paid in cash, average price of $7.36 per share | | 2,787 | | | 2,787 | | 2,787 |
| Transfer from contributed surplus | | 379 | (379) | | | | |
| Loans to purchase the Company's shares (Note 20) | | (183) | | | (183) | | (183) |
| Dividends on Class A common shares (Note 17) | | | | (6,148) | (6,148) | | (6,148) |
| Repurchase of shares (Note 18) | (98,200) | (237) | (647) | | (884) | | (884) |
| Transactions with shareholders | 280,300 | 2,746 | (810) | (6,148) | (4,212) | | (4,212) |
| **Balance at December 29, 2012** | **10,399,032** | **24,908** | **549** | **867** | **26,324** | **74** | **26,398** |

| | Class A common shares | | Contributed surplus | Retained earnings | Shareholders' equity | **Non-controlling interest** | Total equity |
|---|---|---|---|---|---|---|---|
| | Number | $ | $ | $ | $ | **$** | $ |
| Balance at December 26, 2010 | 10,026,732 | 21,803 | 1,290 | 569 | 23,662 | **35** | 23,697 |
| Net earnings | | | | 6,024 | 6,024 | **21** | 6,045 |
| | 10,026,732 | 21,803 | 1,290 | 6,593 | 29,686 | **56** | 29,742 |
| Equity-based compensation | | | 114 | | 114 | | 114 |
| Shares issued pursuant to the exercice of options | 92,000 | | | | | | |
| Paid in cash, average price of $5.28 per share | | 502 | | | 502 | | 502 |
| Transfer from contributed surplus | | 45 | (45) | | | | |
| Loans to puchase the Company's shares (Note 20) | | (188) | | | (188) | | (188) |
| Dividends on Class A common shares (Note 17) | | | | (6,056) | (6,056) | | (6,056) |
| Transactions with shareholders | 92,000 | 359 | 69 | (6,056) | (5,628) | | (5,628) |
| **Balance at December 31, 2011** | **10,118,732** | **22,162** | **1,359** | **537** | **24,058** | **56** | **24,114** |

## 1. GOVERNING STATUTES AND ACTIVITIES

New Look Eyewear Inc. ("New Look"), incorporated under *the Canada Business Corporations Act*, is involved in the eye care industry in Canada. New Look's head office is at 1 Place Ville-Marie, Montréal, Québec, Canada. The shares of New Look (BCI) are listed on the Toronto Stock Exchange.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 COMPLIANCE WITH IFRS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") that are in effect as at December 29, 2012. They were approved and authorized for issue by the board of directors on March 7, 2013.

### 2.2 BASIS OF PRESENTATION

#### Measurement basis

The consolidated financial statements have been prepared using the historical cost basis except for foreign exchange contracts, stock options and business combinations which are measured at fair value, as explained in the accounting policies described below.

#### Principles of consolidation

The consolidated financial statements include the accounts of New Look, those of a new subsidiary wholly-owned and controlled by New Look, as well as those of an entity over which New Look has the power to govern the financial and operating policies without owning shares of this entity (New Look, the new subsidiary and this entity are together referred to as the ''Company''). The non-controlling interest presented in the consolidated financial statements refers to the share of net earnings and net assets not held by New Look. All inter-entity transactions and balances have been eliminated.

Earnings and other comprehensive income of businesses acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

#### Year-end

The year-end of New Look, the new subsidiary and the entity described above is the last Saturday of December. The 2012 fiscal year had 52 weeks while the 2011 fiscal year had 53 weeks.

#### Business combinations

Business combinations are accounted for using the acquisition method. Under this method, the Company measures the identifiable assets acquired and the liabilities assumed, including contingent liabilities, at their acquisition-date fair values, regardless of whether the assets and liabilities were previously recognized in the acquiree's financial statements.

Goodwill is recognized to the extent the fair value of consideration transferred, including liabilities incurred and equity interests issued, exceeds the acquisition-date fair value of the net identifiable assets; a negative amount would be recognized in earnings.

Acquisition costs are expensed as incurred.

#### Accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions in the process of applying the Company's accounting policies. The judgements, estimates and assumptions are based on historical experience, management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates. Key areas where judgements, estimates and assumptions are significant to the financial statements are as follows:

- *Allowance for inventory obsolescence.* The Company estimates an allowance for obsolescence based on the ability to sell the inventories and historical experience.
- *Useful life of property, plant, equipment and intangible assets.* Property, plant, equipment and intangible assets, except tradename and goodwill, are amortized over their respective useful lives. The estimation of useful lives of property, plant and equipment is based on historical experience and assumptions related to obsolescence caused by new technologies and the Company's objectives of using state-of-the-art equipment and of presenting fashionable stores. The estimates of useful lives of property, plant and equipment are provided in the section *Property, plant and Equipment* below. The estimation of the useful life of application software programs is based on historical experience, the annual maintenance and updating services, and the reputation of the supplier. The estimation of the useful lives of customers relationships acquired is based on an analysis of sales experience of the vendor and the Company's estimated capacity to reach such customers.
- *Business combinations*. On initial recognition, the assets and liabilities of the acquired business are included in the consolidated balance sheet at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Details of the assets and liabilities acquired are given in Note 7.
- *Provisions.* The provision related to product warranties is estimated based on historical experience. The provision for leases covered estimated amounts payable under certain leases that were the subject of litigation and were based on management's best estimate. See Note 14 for more details.
- *Assumptions in applying the Black-Scholes method for the determination of equity-based compensation related to options granted.* The method requires assumptions regarding expected values such as: duration of the options, percentage of the options which will not be exercised, volatility of New Look shares, and dividends. These values are based on information known to management at the time the options are granted. It includes historical experience, financial performance of the Company, development plans of the Company, and economic environment.
- *Asset impairment.* Asset impairment tests, described below, require measuring the recoverable amount of certain assets. For this purpose, management has to make assumptions such as discounted future cash flows derived from the use of assets. Historical data and development plans are the prime sources of information used in these circumstances.

- *Income taxes*. The calculation of income tax expense and, consequently, the deferred income tax asset or liability requires determining factors such as the deductibility of expenses, the restrictions in deductibility if any, the rate of depreciation when applicable, and the possibility to use carried-forward tax losses based on the Company's ability to generate future taxable income. For the purpose of these calculations, management exercises judgment by making interpretations and using past experience and the services of tax experts. The effects of tax assessments differing from the Company's calculations could be material.
- *Tax credits.* The calculation of tax credits relating to research and development, training or investments requires determining the activities and expenses eligible to the credits. Management exercises judgment in determining the eligibility of such activities and expenses based on prior experience.
- *Fair value of financial instruments*. The Company applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

### Segment reporting

Management assesses performance of the Company as a single segment being eye care retail activities.

### Revenue recognition

Sales of goods are the only significant source of revenue. Revenue represents cash received or receivable from the customer, net of sales taxes, rebates and discounts. Revenue is recognized when goods are delivered to the customer, which corresponds to the fulfilment of the following conditions:

- The Company has transferred to the customer the significant risks and rewards of ownership of goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### Operating leases

Total rents under operating leases are charged to expenses on a straight-line basis over the lease term. Any difference between the rent expense and the rent payable is reflected as deferred rent on the balance sheet. Lease term includes free rent periods as well as the construction period prior to the commencement of the lease.

### Lease inducements

Lease inducements applicable to lease contracts are deferred and amortized as a reduction of operating costs over the lease term using the straight line method.

### Tax credits

Tax credits related to research and development, and training are recognized to earnings when there is reasonable assurance that the Company will comply with the conditions attaching to them and that the credits will be received.

Tax credits related to the acquisition of long-term assets are deferred and recognized in earnings over the life of a depreciable asset as a reduction to depreciation expense.

### Equity-based compensation

Equity-based compensation, such as options to acquire New Look shares, granted to key employees, officers and directors, is part of the employee remuneration expense. Options to acquire shares are measured at fair value at the grant date using the Black-Scholes option pricing model. Certain loans made by New Look to allow the purchase of its shares are treated as option grants and their repayments as exercises of options.

The fair value of the options determined at the grant date is expensed over the vesting period, based on the Company's estimate of options that will eventually vest, with a corresponding increase in contributed surplus. At the end of each reporting period, the Company revises its estimate of the number of options expected to vest. The impact of the revision of the original estimates, if any, is recognized in earnings such that cumulative expenses reflects the revised estimate, with a corresponding adjustment to the contributed surplus. Balances in contributed surplus are transferred to share capital when the options are exercised. Proceeds from the exercise of options are credited to share capital. Certain loans are deducted from the share capital and their reimbursement increases it.

### Foreign currency translation

The consolidated financial statements are presented in Canadian dollars which is also the functional currency. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets are translated at rates in effect at transaction dates. Current expenses in foreign currencies are translated at rates in effect at transaction dates. Exchange gains and losses are included in earnings.

### Net earnings per share

Basic net earnings per share for a period are computed by dividing the net earnings attributed to shareholders of New Look by the weighted average number of Class A shares outstanding in the period.

Diluted earnings per share for a period are calculated assuming that all dilutive stock options are exercised and that the proceeds obtained on the exercise of these options would be used to repurchase shares at the average market price during the period. Options are not included in the computation of diluted earnings per share or unit when their exercise price is greater than the average market price in the period since they would have an anti-dilutive effect.

## Financial instruments

*Recognition, initial measurement and derecognition*

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

*Classification and subsequent measurement of financial assets*

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- Financial assets at fair value through profit and loss,
- Loans and receivables,
- Held-to-maturity investments,
- Available-for-sale financial assets.

The Company has financial assets in the first two categories only.

All financial assets except for those at fair value through profit and loss are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets used by the Company, which are described below.

All income and expenses relating to financial assets are recognized in net earnings within financial expenses, except for impairment of trade receivables which is presented within other operating expenses.

*Financial instruments carried at fair value through profit and loss*

Foreign exchange contracts are currently the only instruments of the Company carried at fair value through profit and loss. Changes in fair value of these instruments and transaction costs are reflected in earnings. Depending on market conditions, foreign exchange contracts represent an asset or a liability. The fair value of financial assets and liabilities in this category are determined by reference to active market transactions or using a valuation technique where no active market exists. The Company does not use hedge accounting.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less a provision for impairment when applicable. The initial amount recognized corresponds to the fair value of the instrument plus transaction costs. Discounting is omitted where the effect is immaterial. Cash, trade accounts receivable, lease inducements receivable and loans fall into this category under financial instruments. Certain loans made by New Look to allow the purchase of its shares are treated as option grants and their repayment as exercises of options. See *Equity-based Compensation* above and Note 20 for more details.

*Classification and subsequent measurement of financial liabilities*

Bank indebtedness, accounts payable to suppliers, customers' deposits, dividends payable and long-term debt are measured initially at fair value plus transaction costs. They are measured subsequently at amortized cost using the effective interest method. Interest charges and fees related to the annual review of the credit facilities are included with financial expenses. Gains and losses on foreign exchange contracts are presented within other operating expenses.

*Hierarchy of financial instruments*

The Company categorizes its financial instruments that are measured at fair value on the balance sheet into a three-level fair value measurement hierarchy as follows:

Level 1: The fair value is determined directly by reference to unadjusted quoted prices in active markets for identical assets and liabilities. The Company does not have any financial instruments which should be included in this level.

Level 2: The fair value is estimated using a valuation technique based on observable market data, either directly or indirectly. This level includes the Company's derivative financial instruments composed of its forward exchange rate contracts, which are valued using a pricing model supported by market inputs.

Level 3: The fair value is estimated using a valuation technique based on unobservable data. The Company does not have any financial instruments which should be included in this level.

## Inventory valuation

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first in first out method. Cost includes the purchase price, import duties and transport. Trade discounts, rebates and other similar items are deducted in determining the cost. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

### Property, plant and equipment

Property, plant and equipment are carried at acquisition cost less accumulated depreciation and impairment losses. When property, plant and equipment are acquired in business combination, the cost corresponds to the fair value at the acquisition date. Costs less residual value of property, plant and equipment are depreciated over their estimated useful lives. The following table shows the method or maximum periods in use:

| | Method | Period |
|---|---|---|
| Equipment, tools and signs | Straight line | 10 years |
| Computer equipment | Straight line | 5 years |
| Optical equipment | Straight line | 15 years |
| Leasehold improvements | Straight line | Lease term including periods under option, maximum 10 years |
| Building | | |
| Main structure | Straight line | 40 years |
| Certain components | Straight line | 7 to 13 years |
| Land | | No depreciation |

Depreciation methods, useful lives and residual values are reviewed annually.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognized in earnings. Any write-off and loss on disposal are included with depreciation, amortization and impairment of non-financial assets in the statements of earnings and comprehensive income.

### Tradename

The tradename New Look is recorded at cost and is not amortized. It is subject to asset impairment testing described below. Management considers that the tradename is closely linked to the existence of the Company and consequently has an indefinite useful life. The useful life is reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment.

### Other intangible assets

Other intangible assets include acquired application software and intangible assets acquired with the purchase of businesses or otherwise, such as lease contracts acquired under favourable conditions, customer relationships, non-competition agreements, distribution licenses, and other contractual agreements. They are accounted for at cost less accumulated amortization and impairment losses. When an intangible asset is acquired in a business combination, the cost corresponds to the fair value at the acquisition date. The value allocated to a lease contract is amortized on a straight-line basis over the duration of the lease. The value of the other intangible assets is amortized on a straight-line basis over the estimated duration of the benefits obtained, which varies from two to ten years. Residual value, amortization methods and useful lives are reviewed at least annually. In addition, they are subject to impairment testing described below.

### Goodwill

Goodwill represents the future economic benefits arising from the net assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is not amortized and is carried at cost less accumulated impairment losses. Goodwill is subject to impairment testing described below.

### Non-financial asset impairment

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant, equipment and other intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash generating unit is the lowest level for which there are separately identifiable cash flows.

The tradename, with an indefinite useful life, is tested for impairment at least annually and more frequently whenever there is an indication that the asset may be impaired.

For the purpose of impairment testing, goodwill acquired in business combinations is allocated to those cash generating units expected to benefit from the synergies of these combinations which represents the lowest level within the Company at which management monitors goodwill. Management has established that this level corresponds to the store network. This group of cash generating units to which goodwill is allocated is tested for impairment annually, or more frequently when there is indication that the goodwill may be impaired.

An impairment loss is recognized when the carrying amount of an asset exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. The value in use corresponds to the estimated future cash flows that are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

An impairment loss for a cash-generating unit is first allocated to reduce the carrying amount of goodwill to nil and then pro rata to the carrying amount of the other assets in the cash-generating unit. Except for goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. See Note 11 for impairment testing of trade name and goodwill.

### Employee remuneration

Accounts payable, accrued liabilities, and provisions include accrued salaries and benefits, such as vacations, measured at the undiscounted amount that the Company expects to pay.

### Provisions

Provisions are recognized when present obligations as a result of a past event will probably lead to an outflow of economic resources and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, product warranties granted. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date. Discounting is omitted when its effect is immaterial.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. See details in Note 14.

### Income taxes

Tax expense recognized in net earnings comprises the sum of current tax and deferred tax.

Current income tax liabilities or assets comprise those obligations to, or claims from, tax authorities relating to the current or prior periods, that are unpaid or receivable at the balance sheet date. Current tax is payable on taxable income, which differs from earnings in the financial statements. Calculation of current tax is based on rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are determined according to temporary differences between the carrying amount of assets and liabilities and their tax bases, carried-forward tax losses and deferred tax credits. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax assets and liabilities are calculated, without discounting, at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. The effect of a change in tax rates on deferred income tax assets or liabilities is recognized in earnings in the period in which the change occurs.

Deferred tax assets are recognized to the extent that it is probable that they will be utilized to reduce future income taxes. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

### Equity

The carrying value of Class A common shares represents the amounts received on the issue of these shares and the amounts transferred from contributed surplus on the exercise of options.

Contributed surplus includes discounts on repurchase of shares and amounts corresponding to equity-based compensation expenses previously recorded, net of amounts transferred to share capital on the exercise of options.

Retained earnings include all current and prior period retained profits or losses.

### 2.3 IFRS ISSUED BUT NOT YET EFFECTIVE

The *International Accounting Standards Board* has issued amended, revised and new IFRS that were not yet effective as of December 29, 2012. Those that may affect the Company are the following:

- IFRS 9, *Financial Instruments*. This is a new standard replacing current International Accounting Standard (IAS) 39, *Financial Instruments: recognition and measurement.* The objective of IFRS 9 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 is being issued in phases with chapters dealing with recognition, classification, measurement and derecognition being issued to date. The standard is applicable for annual periods beginning on or after January 1, 2015, earlier application being permitted. In management's view, the new standard will not have a significant impact on the Company's financial statements and management does not intend to early adopt the new standard.
- *Consolidation standards.* A package of consolidation standards are effective for annual periods beginning or after January 1, 2013. Information on theses new standards that may affect the Company is presented below. Management's view is that these new standards will have a very limited impact on the Company's financial statements.
  - IFRS 10 *Consolidated Financial Statements*. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary.
  - IFRS 12 *Disclosure of interest of other entities*. IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.
- IFRS 13, *Fair Value Measurement*. This is a new standard replacing fair value measurement guidance in other IFRS. It does not affect which items are required to be fair-valued, but clarifies the definition of fair value, provides related guidance, and requires enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after January 1, 2013, earlier application being permitted. In management's view, this new standard will not have a significant impact on the assets and liabilities and on the future business acquisitions.

## 3. FINANCIAL EXPENSES

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Interest on long-term debt[a] | 333 | 315 |
| Interest on bank indebtedness and other interest | 50 | 10 |
| | 383 | 325 |
| Financing fees | 67 | 51 |
| Interest revenues | (18) | (10) |
| | 432 | 366 |

a) Interest on long-term debt includes accretion of non-interest bearing balances of purchase price of $43,000 ($42,000 in 2011).

## 4. UNDERLYING COMPONENTS IN CONSOLIDATED EARNINGS

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **Employee remuneration expense** | | |
| Salaries and social security costs | 25,317 | 24,831 |
| Equity-based compensation | 216 | 114 |
| | 25,533 | 24,945 |
| **Other components** | | |
| Write-down of inventories | 120 | 125 |
| Gain (loss) on foreign currency translation included in: | | |
| Cost of materials consumed | (63) | (133) |
| Other operating expenses | (14) | 17 |
| Gain (loss) from changes in fair value of forward exchange contracts | (30) | 53 |
| Depreciation of property, plant and equipment | 3,473 | 3,339 |
| Impairment of property and equipment | 200 | |
| Loss on disposal of property and equipment | 37 | 6 |
| Amortization of other intangible assets | 1,262 | 980 |
| Amortization of deferred investment tax credits, reducing the depreciation expense | 12 | 12 |
| Acquisition cost of businesses included in other operating expenses | 19 | 49 |
| Research and development expenses | 90 | 136 |
| Related tax credits | | |
| Current | 102 | 109 |
| Future | 71 | 91 |

## 5. NET EARNINGS PER SHARE

| | 2012 $ | 2011 $ |
|---|---|---|
| Net earnings attributable to shareholders of New Look | $6,478 | $6,024 |
| Weighted average number of common shares | 10,197,394 | 10,074,622 |
| Dilutive effect of stock options | 120,900 | 59,665 |
| | 10,318,294 | 10,134,287 |
| Net earnings per share | | |
| Basic | $0.64 | $0.60 |
| Diluted | $0.63 | $0.59 |
| Antidilutive options for the period | 301,000 | - |

Antidilutive options were not included in the computation of diluted earnings per share.

## 6. UNDERLYING COMPONENTS IN CONSOLIDATED CASH FLOWS

The changes in working capital items related to operating activities are detailed as follows:

| | 2012 $ | 2011 $ |
|---|---|---|
| Receivables | (438) | (228) |
| Tax credits receivable | (96) | 102 |
| Inventory | 256 | (200) |
| Prepaid expenses | (16) | 151 |
| Accounts payable, accrued liabilities and provisions | (1,698) | 1,938 |
| Source (use) of cash | (1,992) | 1,763 |

## 7. BUSINESS COMBINATIONS

### Acquisitions in 2012

During the year ended December 29, 2012, New Look acquired 100% of the voting shares of two companies operating optical practices in the Montreal area for a total consideration of $657,000 with balances of purchase price payable of $247,000. As part of these acquisitions, the Company acquired current assets amounting to $60,000 and non-current assets amounting to $786,000 and assumed non-current liabilities amounting to $189,000.

Non-current assets include goodwill which reflects the acquisition of personnel and expected synergies from combining operations of the practices acquired and those of New Look. No amount of goodwill is deductible for tax purposes.

### Acquisitions in 2011

During the year ended December 31, 2011, the Company acquired 100% of the voting shares of two companies operating optical practices in Québec for a total consideration of $1,635,000 with balances of purchase price of $342,000.

As part of these acquisitions, the Company acquired currents assets amounting to $87,000 and non-current assets amounting to $1,739,000 and assumed non-current liabilities amounting to $191,000.

Non-current assets include goodwill acquired which reflects the acquisition of personnel and expected synergies from combining operations of the practices acquired and the Company. No amount of goodwill is deductible for tax purposes.

The balances of purchase price payable have a total nominal value of $375,000 bear no interest, and are repayable over the next three years. Their fair value was determined by discounting the expected disbursements at the rate of 5% per annum. A tranche of $100,000 of nominal value is guaranteed by an amount of $100,000 held in escrow (see Note 9).

## 8. RECEIVABLES

| | 2012 $ | 2011 $ |
|---|---|---|
| Trade accounts | 806 | 487 |
| Sales taxes | 682 | 557 |
| Lease inducements | 15 | |
| Advances | 30 | 36 |
| | 1,533 | 1,080 |

## 9. LOANS AND ADVANCES

| | 2012 $ | 2011 $ |
|---|---|---|
| Cash held in escrow to guarantee a balance of purchase price | 70 | 100 |
| Loan to an entity related to an senior officer, 5% interest, repayable in 2015, guaranteed by New Look shares having an approximate fair value of $300 (Note 20) | 200 | |
| Loan to the holder of the non-controlling interest, bearing interest at prime rate plus 1%, currently 4.0% (4.0% as at December 31, 2011) without repayment terms | 30 | 30 |
| | 300 | 130 |

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Land | Building | Computer equipment | Optical equipment | Other equipment, tools and signs | Leasehold improvements | Deposit to acquire equipment | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Gross carrying amount** | | | | | | | | |
| Balance as at January 1, 2012 | | | 1,374 | 3,177 | 26,447 | 15,854 | 290 | 47,142 |
| Acquisitions through business combinations | | | | 79 | | 73 | | 152 |
| Other acquisitions | 1,462 | 2,834 | 242 | 854 | 1,059 | 1,861 | 477 | 8,789 |
| Disposals | | | | | (347) | (368) | | (715) |
| Balance as at December 29, 2012 | 1,462 | 2,834 | 1,616 | 4,110 | 27,159 | 17,420 | 767 | 55,368 |
| **Accumulated depreciation** | | | | | | | | |
| Balance as at January 1, 2012 | | | 909 | 472 | 19,367 | 8,507 | | 29,255 |
| Depreciation | | 47 | 171 | 265 | 1,452 | 1,538 | | 3,473 |
| Impairment | | | | | | 200 | | 200 |
| Disposals | | | | | (284) | (236) | | (520) |
| Balance as at December 29, 2012 | | 47 | 1,080 | 737 | 20,535 | 10,009 | | 32,408 |
| **Net carrying amount as at December 29, 2012** | **1,462** | **2,787** | **536** | **3,373** | **6,624** | **7,411** | **767** | **22,960** |
| Leased assets included in net carrying amount | | | | | 71 | | | 71 |

| | Land | Building | Computer equipment | Optical equipment | Other equipment, tools and signs | Leasehold improvements | Deposit to acquire equipment | Total |
|---|---|---|---|---|---|---|---|---|
| **Gross carrying amount** | | | | | | | | |
| Balance as at December 26, 2010 | | | 1,157 | 2,368 | 25,469 | 14,052 | 441 | 43,487 |
| Acquisitions through business combinations | | | | 290 | 6 | 25 | | 321 |
| Other acquisitions | | | 217 | 519 | 1,364 | 1,923 | (151) | 3,872 |
| Disposals | | | | | (392) | (146) | | (538) |
| Balance as at December 31, 2011 | | | 1,374 | 3,177 | 26,447 | 15,854 | 290 | 47,142 |
| **Accumulated depreciation** | | | | | | | | |
| Balance as at December 26, 2010 | | | 699 | 248 | 18,321 | 7,081 | | 26,349 |
| Depreciation | | | 210 | 224 | 1,401 | 1,504 | | 3,339 |
| Disposals | | | | | (355) | (78) | | (433) |
| Balance as at December 31, 2011 | | | 909 | 472 | 19,367 | 8,507 | | 29,255 |
| **Net carrying amount as at December 31, 2011** | | | **465** | **2,705** | **7,080** | **7,347** | **290** | **17,887** |
| Leased assets included in net carrying amount | | | | | 90 | 10 | | 100 |

## 11. TRADENAME AND GOODWILL

The change in the carrying amount of goodwill resulted from the business combinations:

| | 2012 | 2011 |
|---|---|---|
| | | $ |
| Balance at beginning of period | 6,147 | 5,958 |
| Acquired though business combinations | 250 | 189 |
| Balance at end of period | 6,397 | 6,147 |

### Impairment tests of trade name and goodwill

The trade name and goodwill were tested for impairment on December 29, 2012 and December 31, 2011. The impairment tests showed that no impairment was necessary.

The impairment tests required determining the recoverable amount of the store network. This recoverable amount was determined based on value-in-use calculations, covering a detailed three-year forecast, followed by an extrapolation of expected cash flows for the store network remaining useful lives using an annual growth rate of 2% and a discount rate of 10% at December 31, 2011 and December 29, 2012. The growth rate reflects the minimum expected long-term growth rate of the store network.

## 12. OTHER INTANGIBLE ASSETS

| | Leases | Application software | Customer relationships | Contractual agreements[a] | Distribution license | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| **Gross carrying amount** | | | | | | |
| Balance as at January 1, 2012 | 537 | 1,147 | 1,315 | 1,505 | 1,019 | 5,523 |
| Acquisitions through business combinations | | | 103 | 281 | | 384 |
| Other acquisitions | | 163 | 58 | | | 221 |
| Write-off | | | (17) | | (1,019) | (1,036) |
| Balance as at December 29, 2012 | 537 | 1,310 | 1,459 | 1,786 | | 5,092 |
| **Accumulated amortization** | | | | | | |
| Balance as at January 1, 2012 | 202 | 471 | 380 | 287 | 894 | 2,234 |
| Amortization | 51 | 155 | 267 | 664 | 125 | 1,262 |
| Write-off | | | (17) | | (1,019) | (1,036) |
| Balance as at December 29, 2012 | 253 | 626 | 630 | 951 | | 2,460 |
| **Net carrying amount as at December 29, 2012** | **284** | **684** | **829** | **835** | | **2,632** |
| **Gross carrying amount** | | | | | | |
| Balance as at December 26, 2010 | 537 | 925 | 755 | 748 | 1,019 | 3,984 |
| Acquisitions through business combinations | | | 474 | 755 | | 1,229 |
| Other acquisitions | | 222 | 86 | 2 | | 310 |
| Balance as at December 31, 2011 | 537 | 1,147 | 1,315 | 1,505 | 1,019 | 5,523 |
| **Accumulated amortization** | | | | | | |
| Balance as at December 26, 2010 | 149 | 324 | 230 | 170 | 381 | 1,254 |
| Amortization | 53 | 147 | 150 | 117 | 513 | 980 |
| Balance as at December 31, 2011 | 202 | 471 | 380 | 287 | 894 | 2,234 |
| **Net carrying amount as at December 31, 2011** | **335** | **676** | **935** | **1,218** | **125** | **3,289** |

a) Contractual agreements include non-competition agreements and other contractual agreements.

## 13. BANK INDEBTEDNESS

The bank indebtedness, for a maximum authorized amount of $2,500,000 under an operating line of credit to finance day-to-day operations, bears interest at prime rate plus a premium varying from 0.5% to 1.0% depending on the ratio of interest-bearing debt to earnings before interest, income taxes and amortization ("EBITDA"). As at December 29, 2012, and December 31, 2011, the prime rate was 3.0% and the applicable premium was 0.5 % for a total of 3.5%.

No amount was drawn on the operating line of credit as of December 29, 2012 and December 31, 2011.

New Look may use its operating credit through bankers' acceptances. As of December 29, 2012 and December 31, 2011, New Look had no bankers' acceptances outstanding related to the operating line of credit.

Refer to Note 15 for the description of the security.

## 14. ACCOUNTS PAYABLE, ACCRUED LIABILITIES AND PROVISIONS

| | 2012 | 2011 |
|---|---|---|
| | | $ |
| Salaries and accrued benefits | 3,273 | 3,402 |
| Customers' deposits | 1,395 | 1,556 |
| Suppliers | 4,043 | 5,292 |
| Provisions | 247 | 406 |
| | 8,958 | 10,656 |

The above figures of provisions reconcile as follows:

| | Product warranties | Leases | Total |
|---|---|---|---|
| Carrying amount at January 1, 2012 | 108 | 298 | 406 |
| Additional provision | 1,055 | | 1,055 |
| Amount utilized | (916) | (40) | (956) |
| Reversed | | (258) | (258) |
| Carrying amount at December 29, 2012 | 247 | | 247 |

All provisions are considered current. The Company is not eligible for any reimbursement by third parties. See Note 2.2 for accounting judgements estimates and assumptions related to the provisions.

## 15. LONG-TERM DEBT

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Bankers' acceptances under the Evergreen credit, effective rate of 3.37% (3.30% as of December 31, 2011) | 6,000 | 7,000 |
| Bankers' acceptances under the additional credit facilities described below, secured by land and building having a carrying value of $4,249, effective rate of 3.07% | 2,925 | |
| Balance of purchase price, initial nominal amount of $275, without interest, average annual payment of $92 from 2012 to 2014, subject to performance conditions, initial fair value estimated using a discount rate of 5% | 265 | 253 |
| Balance of purchase price, initial nominal amount of $240, without interest, average annual payment of $80 from 2013 to 2015, subject to performance conditions, initial fair value estimated using a discount rate of 5% | 225 | |
| Balance of purchase price, initial nominal amount of $780, without interest, average annual payment of $195 from 2010 to 2013, subject to performance conditions, initial fair value estimated using a discount rate of 9% | 111 | 318 |
| Balance of purchase price, initial nominal amount of $100, without interest, average annual payment of $33 from 2012 to 2014, subject to performance conditions, initial fair value estimated using a discount rate of 5% | 69 | 92 |
| Balance of purchase price, nominal amount of $120, without interest, annual payment of $40 from 2011 to 2013, subject to performance conditions, initial fair value estimated using a discount rate of 7% | 78 | 73 |
| Obligations under capital leases maturing over the years 2012 to 2016, average annual payments of capital and interest of $9, initial fair value estimated using an average discount rate of 6% | 64 | 14 |
| 8.88% note payable, secured by leasehold improvements and equipment having a carrying value of $106, payable in monthly instalments of $2, capital and interest, maturing in May 2014 | 31 | 51 |
| Other | 48 | 102 |
| | 9,816 | 7,903 |
| Instalments due within one year | 712 | 497 |
| | 9,104 | 7,406 |

### Instalments on long-term debt

| | $ |
|---|---|
| 2013 | 712 |
| 2014 | 1,295 |
| 2015 | 1,709 |
| 2016 | 1,650 |
| 2017 | 3,825 |
| 2018 | 625 |
| | 9,816 |

The Evergreen credit is expected to be renewed and when renewed should not require any reimbursements. The table above reflects instalment payments assuming that the "Evergreen" credit will not be renewed by the financial institution at the end of the current revolving term maturing in May 2014 and that the additional credit, described below, maturing in 2017 will not be renewed.

### Credit facilities

The credit facilities existing at December 31, 2011 were renewed and an additional credit was obtained in 2012. The main elements of the renewed and added facilities are the following:

a) An operating line of credit of $2,500,000 described in Note 13, *Bank Indebtedness.*

b) An "Evergreen" operating credit totalling $12,000,000 to finance capital expenditures with the following features:

- A revolving term maturing on May 31, 2014. Every year, New Look has the option to extent the revolving term, subject to the bank's approval, for an additional year so as to maintain a revolving term of two years. No payment of capital is required during a revolving period. Should a revolving term not be renewed, New Look will retain its privileges until the expiry date already granted, on which date the principal then owing shall be converted to a term loan with a maximum term and amortization period of four years, payable in equal consecutive monthly instalments.
- The variable interest rate is prime rate plus a premium varying from 0.75% to 1.25% depending on the ratio of interest-bearing debt to EBITDA. As at December 29, 2012 and December 31, 2011, the prime rate was 3.0% and the applicable premium was 0.75% for a total of 3.75%.
- New Look may use its Evergreen credit through bankers' acceptances. As at December 29, 2012 and December 31, 2011, all advances under the Evergreen credit were financed through bankers' acceptances.
- A credit for a maximum net risk of $900,000 is available to New Look to manage interest risk by using interest rate swap agreements or other treasury product derivatives.

c) Additional credit of $3,000,000 for the acquisition of a building previously partly occupied and leased for the laboratory, the distribution center and administrative offices. The main features of these facilities are the following:

- Five-year term loan of $3,000,000, monthly payments of capital of $12,500, the balance maturing in 2017;
- Variable interest rate at prime rate plus 0.50%;
- Option of using bankers acceptances;
- First ranking immoveable hypothec of $3,300,000 on the building acquired.

The bank indebtedness and the Evergreen credit facilities are secured by a first ranking hypothec of $25,000,000 on New Look's movable property.

Financial ratios required under the financing agreement were respected as of December 29, 2012 and December 31, 2011.

The credit facilities are reviewable annually.

## 16. INCOME TAXES

### 16.1 INCOME TAX EXPENSE

The Company is subject to tax on its taxable income at a rate of approximately 26.9% (28.4% in 2011). The effective income tax rate differs from the combined federal and provincial income tax rates in Canada. This difference results from the following:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Earnings before income taxes | 9,705 | 8,557 |
| Current statutory income tax rate | 26.9% | 28.4% |
| Income tax expense at statutory rate | 2,611 | 2,430 |
| Increase in taxes resulting from: | | |
| Non-deductible intangibles assets | 235 | |
| Non-deductible current expenses | 96 | 60 |
| Adjustment related to corporate conversion in 2010 | 231 | |
| Other | 36 | 22 |
| Income tax expense | 3,209 | 2,512 |

The income tax expense comprises:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Current tax expense | 231 | (30) |
| Deferred tax expense: | | |
| Origination and reversal of temporary differences | 302 | (137) |
| Utilization of unused tax losses and tax credits | 2,676 | 2,679 |
| | 3,209 | 2,512 |

### 16.2 DEFERRED TAX ASSETS

Deferred taxes arising from temporary differences and unused tax losses and tax credits are summarized as follows (negative balances represent deferred tax liabilities):

| | Balance as at Jan 1, 2012 | Business combinations | Recognized in earnings | Balance as at Dec 29, 2012 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Unused tax losses and tax credits | 6,295 | | (2,605) | 3,690 |
| Temporary differences[a]: | | | | |
| Property, plant and equipment | (1,712) | | (20) | (1,732) |
| Other assets | (632) | (107) | (194) | (933) |
| Provisions | 109 | | (43) | 66 |
| Liabilities[b] | 690 | | (45) | 645 |
| | 4,750 | (107) | (2,907) | 1,736 |
| Recognized as: | | | | |
| Deferred income tax expense | | | (2,978) | |
| Reduction of operating expenses | | | 71 | |
| | | | (2,907) | |

a) Temporary differences between carrying value and tax basis.

b) Liabilities represented by deferred lease inducements, investment tax credits and rent.

Deferred taxes for the comparative period are summarized as follows:

| | Balance as at Dec 26, 2010 | Business combinations | Recognized in earnings | Balance as at Dec 31, 2011 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Unused tax losses and tax credits | 8,695 | 188 | (2,588) | 6,295 |
| Temporary differences[a]: | | | | |
| Property, plant and equipment | (1,532) | | (180) | (1,712) |
| Other assets | (820) | (174) | 362 | (632) |
| Provisions | 134 | | (25) | 109 |
| Liabilities[b] | 710 | | (20) | 690 |
| | 7,187 | 14 | (2,451) | 4,750 |
| Recognized as: | | | | |
| Deferred income tax expense | | | (2,542) | |
| Reduction of operating expenses | | | 91 | |
| | | | (2,451) | |

a) Temporary differences between carrying value and tax basis.

b) Liabilities represented by deferred lease inducements, investment tax credits and rent

## 17. DIVIDENDS

New Look declared and paid quarterly dividends totalling $.60 per Class A common share in 2012 and 2011.

## 18. SHARE CAPITAL

### AUTHORIZED SHARE CAPITAL AS AT DECEMBER 29, 2012 AND DECEMBER 31, 2011

#### Class A common shares

Unlimited number, voting and participating.

#### First preferred shares

Unlimited number, issuable in series, whose designation, rights, privileges, restrictions and conditions attaching to each series shall be established at issue time.

#### Class A preferred shares

Unlimited number, non-voting, non-participating, redeemable and retractable.

### OUTSTANDING SHARE CAPITAL AS AT DECEMBER 29, 2012 AND DECEMBER 31, 2011

The only shares outstanding as at December 29, 2012 and December 31, 2011 were the Class A common shares whose continuity is shown in the consolidated statements of changes in equity.

### ISSUANCE OF SHARES

In 2012 and 2011, New Look issued shares pursuant to the exercise of options the details of which are described in Note 19. The carrying value of the share capital was increased by the amounts received in cash and a transfer from contributed surplus corresponding to the equity-based compensation expense previously recorded and recognized in contributed surplus.

### REPURCHASE OF SHARES

In 2012, New Look repurchased 98,200 Class A common shares from employees at $9.00 per share. The related disbursements were recorded as follows:

| | $ |
|---|---|
| Reduction in the carrying value of share capital | 237 |
| Reduction in the carrying value of the contributed surplus | 647 |
| Total disbursements | 884 |

## 19. STOCK OPTION PLAN

Under the Stock Option Plan of New Look, options to acquire New Look shares may be granted to key employees, officers and directors. The exercise price of each option, payable in cash, equals the market price of the share on grant date and an option's maximum term may not exceed ten years. Options vest according to a period established by the Board of Directors at the time the options are granted. The current policy is to grant options with the following vesting periods: one-third after the grant date, an additional one-third at the end of the first year and the balance at the end of the second year.

The maximum number of shares issuable under the plan at any given time is 10% of shares issued and outstanding. The number of shares reserved by the TSX for issuance upon the exercise of options was 633,373 as of December 29, 2012 (907,373 as of December 31, 2011).

Changes in the number of options outstanding were as follows:

| | 2012 | 2011 |
|---|---|---|
| **Number of options** | | |
| Outstanding at beginning of year | 692,467 | 647,467 |
| Granted | 301,000 | 137,000 |
| Exercised | (378,500) | (92,000) |
| Outstanding at end of year | 614,967 | 692,467 |
| Exercisable at end of year | 370,292 | 558,793 |
| **Weighted average exercise price** | **$** | **$** |
| Outstanding at beginning of year | 7.15 | 6.85 |
| Granted | 9.03 | 7.40 |
| Exercised | 7.36 | 5.45 |
| Outstanding at end of year | 7.94 | 7.15 |
| Exercisable at end of year | 7.41 | 7.09 |
| Weighted average market value at exercise date | 8.98 | 7.66 |

The following table summarizes information about options outstanding and exercisable as at December 29, 2012:

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of exercise price | Number | Weighted average remaining contractual life (years) | Weighted average exercise price | Number | Weighted average exercise price |
| $ | | | $ | | $ |
| 5.40 | 79,967 | 1.26 | 5.40 | 79,967 | 5.40 |
| 7.40 | 234,000 | 2.81 | 7.40 | 189,997 | 7.40 |
| 8.98 to 9.09 | 301,000 | 4.41 | 9.03 | 100,328 | 9.03 |
| | 614,967 | 3.393 | 7.94 | 370,292 | 7.41 |

The per-share average market value was $8.96 in 2012 ($7.76 in 2011) and the per-share market value at the end of 2012 was $9.39 ($7.95 at end of 2011).

The fair value of options granted is estimated using a Black-Scholes option pricing model with the following assumptions:

| | 2012 | 2011 |
|---|---|---|
| Exercise price | $9.03 | $7.40 |
| Expected life (years) | 4 | 4 |
| Expected volatility | 25% | 27% |
| Risk-free interest rate | 1.6% | 2.4% |
| Expected annual dividends | $0.60 | $0.60 |

The weighted average fair value of options granted in 2012 was estimated at $0.87 per option ($0.73 for 2011).

The underlying expected volatility was determined by reference to historical data of the Company's shares over a period of time representing the expected life of the options granted.

The loans described in Note 20, *Related Party Transactions*, have been treated as option grants the exercise price of which corresponds to the amounts of the loans and interest payable. The assumptions used in applying the Black-Scholes pricing model were similar to those presented in the above table.

The equity-based compensation expense of $216,000 recorded in 2012 ($114,000 in 2011) relates to the vesting of options accrued in the period and certain loans described in Note 20.

## 20. RELATED PARTY TRANSACTIONS

The Company's related parties include key management and directors. Key management is composed of the president and the vice presidents.

### Transactions in 2012

| | $ |
|---|---|
| Loan to an entity related to a senior officer for the purchase of New Look shares, 5% interest, repayable in 2015 which term can be extended to 2017 upon the maintenance of employment of the officer, guaranteed by New Look shares having an approximate fair value of $183[(a)] | 183 |
| Loan to an entity related to a senior officer for the purchase of New Look shares, 5% interest, repayable in 2015, guaranteed by New Look shares having an approximate fair value of $300[(b)] | 200 |
| Repurchase of 95,200 shares from senior officers at $9.00 per share | 857 |

### Transactions in 2011

| | $ |
|---|---|
| Loan to an entity related to a senior officer for the purchase of New Look shares, 5% interest, repayable in 2014 which term can be extended to 2016 upon the maintenance of employment of the officer, guaranteed by New Look shares having an approximate fair value of $282[(a)] | 188 |
| Interest-free advance to a senior officer repaid in 2012 | 20 |

a) These loans are treated as option grants and are presented as a reduction in share capital. Their reimbursements will be treated as exercises of options and will then increase the share capital. These loans gave rise to an equity-based compensation of $21,000 fully expensed in 2012 and of $21,000 fully expensed in 2011.

b) This loan is treated as a financial asset. See Note 9.

## 21. REMUNERATION OF KEY MANAGEMENT AND DIRECTORS

Remuneration of key management and directors is summarized as follows:

| | 2012 | 2011 |
|---|---|---|
| | | $ |
| Short-term remuneration of key management and directors, termination payments and related social security costs | 1,684 | 1,729 |
| Equity-based compensation | 216 | 114 |
| | 1,900 | 1,843 |

## 22. COMMITMENTS

New Look has entered into long-term lease agreements expiring until 2021 which call for lease payments for the rental of buildings. Minimum lease payments required under such leases are as follows:

| | $ |
|---|---|
| Not later than one year | 8,837 |
| Later than one year and not later than five years | 22,614 |
| Later than five years | 3,937 |
| | 35,388 |

New Look also entered into agreements to purchase property and equipment totalling $396,000.

## 23. CONTINGENCIES

New Look is contingently liable with respect to claims and litigations that arise in the normal course of operations. Management is of the opinion that any liability in excess of the provision already recorded in the accounts, which may arise from such claims, would not have a material adverse effect on the financial statements of the Company.

## 24. FINANCIAL INSTRUMENTS

The following table provides the carrying value of each category of financial assets and liabilities and the related balance sheet item:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **Loans and receivables** | | |
| Cash | 1,534 | 1,418 |
| Trade accounts receivable | 806 | 487 |
| Lease inducements receivable | 15 | |
| Advances, included with receivables | 30 | 36 |
| Loans and advances | 300 | 130 |
| Total financial assets | 2,685 | 2,071 |
| Other financial liabilities | | |
| Customers' deposits | 1,395 | 1,556 |
| Suppliers | 4,043 | 5,292 |
| Long-term debt including current portion | 9,816 | 7,903 |
| Total financial liabilities | 15,254 | 14,751 |

### Estimated fair value

Cash, receivables excluding sales taxes, and accounts payable and accrued liabilities, are financial instruments whose fair values approximate carrying amounts given that they mature shortly.

The fair value of the loans is determined by discounting future cash flows using current rates. The fair value of the loans approximates their carrying amount.

The fair value of long-term debt was determined by discounting future cash flows using rates which New Look could currently obtain for loans with similar terms and conditions and maturity dates. The estimated fair value of the long-term debt was essentially equivalent to the carrying amount for the years ended December 29, 2012 and December 31, 2011.

## 25. FINANCIAL INSTRUMENT RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to various risks in relation to financial instruments including: foreign exchange risk, interest rate risk, credit risk and liquidity risk. Management is responsible for setting acceptable levels of risks and reviewing management activities as necessary.

The Company does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

Management has established objectives and policies regarding the following risks:

### Exchange risk

The Company is exposed to foreign currency fluctuations with regards to the following assets and liabilities, expressed in Canadian dollars:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Cash in US dollars | 61 | 57 |
| Accounts payable in US dollars | (491) | (831) |
| Accounts payable in euros | (74) | (104) |
| Net assets (net liabilities) in currencies | (504 ) | (878) |
| Favourable (unfavourable) impact of 2% strengthening of the currencies on earnings before income taxes | (10 ) | (18) |

Management has established a policy covering approximately 50% of the purchases in US dollars forecast for the next 12 months through the use of foreign exchange contracts.

The Company does not use hedge accounting. Accordingly, forward exchange contracts are recognized at their fair value on the balance sheet and changes in fair value are recognized in earnings. Forward exchange contracts outstanding as of December 29, 2012 and December 31, 2011 related to the purchases of US dollars. They are summarized as follow:

| Maturity | US$ | Average contract rate in CA$ |
|---|---|---|
| As of December 29, 2012 | | |
| Less than 4 months | 400 | 1.004 |
| From 4 to 12 months | 600 | 1.022 |
| As of December 31, 2011 | | |
| Less than 4 months | 400 | 0.995 |
| From 4 to 12 months | 200 | 1.000 |

As of December 29, 2012, the estimated fair value of the above exchange contracts represented an asset of $22,000 ($14,000 as of December 31, 2011) included with the receivables.

### Interest rate risk

As at December 29, 2012, 91% (89% as at December 31, 2011) of the long-term debt bore interest at a floating rate and therefore, the Company is exposed to cash flow risks resulting from fluctuations in interest rates. A 100 basis point increase in interest rates have resulted in an increase in interest payments of $84,000 in 2012 ($85,000 in 2011).

Management's objective is to benefit from the current low variable interest rates while maintaining at all times the possibility of using interest rate swaps as deemed necessary in periods of rising interest rates.

### Credit risk

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Generally, the carrying amount reported on the Company's balance sheet for its financial assets exposed to credit risk represents the maximum amount exposed to credit risk.

Credit risk associated with cash is substantiality mitigated by ensuring that these financial assets are placed with major financial institutions that have been accorded investment grade ratings by a primary rating agency and qualify as credit worthy counterparties.

Credit risk with respect to trade receivables is limited due to the general policy of requiring down payments on accepting orders and payment of the balance of sale price on delivery of goods. No amounts were past due at the end of 2012 and 2011.

### Liquidity risk

Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that New Look has financing sources such as its credit facilities for a sufficient authorized amount. The Company establishes budgets, cash estimates, and a cash management policy to ensure it has the necessary funds to fulfill its obligations for the foreseeable future.

The maturity analysis of financial liabilities, including estimated interest, is as follows:

| | Long-term debt[a] | Accounts payable and accrued liabilities | Total |
|---|---|---|---|
| 2013 | 1,026 | 5,438 | 6,464 |
| 2014 | 1,599 | | 1,599 |
| 2015 | 2,002 | | 2,002 |
| 2016 | 1,936 | | 1,936 |
| 2017 | 4,069 | | 4,069 |
| 2018 | 710 | | 710 |
| | 11,342 | 5,438 | 16,780 |

a) It is assumed that the debt of $6,000,000 under the Evergreen credit will be reimbursed in 48 equal monthly instalments beginning in June 2014. Interest at an estimated rate of 3.4% on this debt is included in the table above.

## 26. CAPITAL MANAGEMENT

The Company objectives when managing capital are:

a) To continue to successfully build the business with a conservative capital structure at the same time as maintaining and increasing dividends; and

b) To provide above average return to the shareholders commensurately with the level of risk.

The Company's capital is composed of shareholders' equity and net debt. Net debt is the total of the long-term debt, including the short-term portion, the short-term bank indebtedness, and distributions and dividends payable in excess of cash. The Company manages the capital structure by financing its growth using a combination of its credit facilities and cash flows from operations.

The Company's capital structure is as follows:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Equity | 26,398 | 24,114 |
| Long-term debt including short-term portion | 9,816 | 7,903 |
| Cash | (1,534) | (1,418) |
| Total capitalization | 34,680 | 30,599 |

The guidelines with respect to the capital structure and the resulting performance read as follows:

| | Guidelines | 2012 | 2011 |
|---|---|---|---|
| Net debt / EBITDA[a] | Maximum of 2.0 | 0.5 | 0.5 |
| Net debt / Total capitalization | Maximum of 0.50 | 0.24 | 0.21 |
| Debt service and rent coverage[b] | Minimum of 1.1 | 1.9 | 1.8 |

a) EBITDA is net earnings before financial expenses, depreciation, amortization, impairment of non-financial assets, and income taxes for the last four quarters. It excludes any gain or loss on foreign currency and equity-based compensation.

b) The debt service and rent coverage ratio is equal to : EBITDAR for the last four quarters less dividends, distributions, redeemed shares and paid taxes in these quarters divided by the total of current portion of long-term debt, financial expenses and rent. EBITDAR is defined as EBITDA plus rent.

While the Company is not subject to externally imposed capital requirements, its credit facilities are subject to a number of covenants, including an interest bearing debt to EBITDA ratio, which was respected in the financial years ended December 29, 2012 and December 31, 2011.

New Look has no commitments to issue shares except pursuant to the exercise of options.

## 27. EVENTS AFTER THE REPORTING PERIOD

### Dividends

On March 7, 2013, the Board of Directors declared a dividend of $0.15 per Class A common shares to shareholders of record on March 21, 2013. The dividend is payable on March 31, 2013 and no liability in this respect is recognized in the financial statements for 2012.

# ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 29
2012

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## Board of Directors

W. John Bennett
Chairman
New Look Eyewear Inc.

Antoine Amiel
Vice Chairman
New Look Eyewear Inc.

Richard Cherney
Secretary
New Look Eyewear Inc.
Managing Partner
Davies Ward Phillips & Vineberg

M. William Cleman
Management Consultant
Cleman Consulting Inc.

Paul S. Echenberg
President and
Chief Executive Officer
Schroders and
Associates Canada Inc.

William R. Ferguson
President
Eric T. Webster Foundation

Martial Gagné
President
New Look Eyewear Inc.

C. Emmett Pearson
Director
New Look Eyewear Inc.

## Executive Officers

Martial Gagné
President
New Look Eyewear Inc.

Antoine Amiel
Vice Chairman
New Look Eyewear Inc.

Jean-Luc Deschamps
Senior Vice President and
Chief Financial Officer
New Look Eyewear Inc.

Claire Boulanger
Vice President
Real Estate and Development
New Look Eyewear Inc.

Marie-Josée Mercier
Vice President
Sales and Operations
New Look Eyewear Inc.

Mario Pageau
Vice President
Optical Products and Services
New Look Eyewear Inc.

France Reimnitz
Vice President
Marketing and Merchandising
New Look Eyewear Inc.

Caroline Rouleau
Vice President
Professional Services and
Human Resources
New Look Eyewear Inc.

As of February 28, 2013, New Look had 10,399,032 Class A common shares issued and outstanding. New Look is a leader in the eye care industry in Eastern Canada operating a network of corporate stores and a laboratory using state-of-the-art technologies.

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