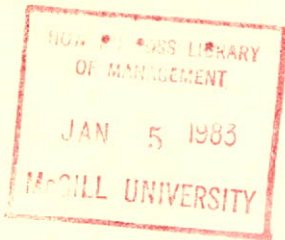


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PEOPLES⁺ JEWELLERS LIMITED
1982 Annual Report



PEOPLES JEWELLERS LIMITED

Notice of the Annual and Special Meeting of Shareholders

NOTICE IS HEREBY GIVEN that the annual and special meeting of shareholders of the Corporation will be held in the Board Room of National Trust Company, Limited, Third Floor, 21 King Street East, Toronto, Ontario on January 25, 1983 at the hour of 2:30 o'clock (Toronto time) in the afternoon, for the following purposes:

1. Receiving the Annual Report, the Financial Statements for the year ended August 31, 1982, and the Report of the Auditors;
2. Electing Directors;
3. Appointing Auditors;
4. Approving the amendment to the Corporation's articles to redesignate the Class A Shares as "Class A Non-Voting Shares"; and
5. Transacting such other business as may properly come before the meeting or any adjournment thereof.

Dated at Toronto, this 29th day of December, 1982.

By Order of the Board
Phyllis McAllister, Secretary

Shareholders who do not expect to attend the meeting in person are requested to complete, date and sign the enclosed proxy form and return it promptly to the Secretary of the Corporation in the enclosed return envelope.

Proxy Circular

Solicitation of Proxies

This proxy circular is furnished in connection with the solicitation by the management of Peoples Jewellers Limited (the "Corporation") of proxies to be used at the Annual and Special Meeting of Shareholders of the Corporation to be held at the time and place and for the purposes set forth in the above Notice of Meeting. It is expected that the solicitation will be by mail. The cost of solicitation by management will be borne by the Corporation.

Appointment and Revocation of Proxies

The persons named in the enclosed proxy form are directors of the Corporation. **A shareholder desiring to appoint some other person, who need not be a shareholder, as his proxy to represent him at the meeting may do so** either by inserting the proxy's name in the blank space provided in the enclosed proxy form or by completing another proxy form; such a shareholder should notify the person of his appointment, obtain his consent to act as proxy and instruct him on how the shareholder's shares are to be voted. In either case the proxy form should be dated and must be executed by the shareholder or his attorney authorized in writing. To be effective, proxies must be deposited with the Secretary of the Corporation.

A proxy may be revoked, as to any motion on which a vote has not already been cast pursuant to the authority conferred by it, by instrument in writing executed by the shareholder or by his attorney authorized in writing and deposited either at the head office of the Corporation at any time up to and including the last business day preceding the day of the meeting or any adjournments at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting or any adjournments.

Voting of Proxies

Each shareholder may instruct his proxy how to vote his shares by completing the blanks on the proxy form. Such instructions will be followed in respect of any shares represented by properly executed proxy forms in favour of the persons named in the printed portion of the enclosed proxy form. Shares represented by properly executed proxy forms will be voted or withheld from voting in accordance with the instructions made on the proxy forms. In the absence of such instructions, such shares **will be voted for the election of directors, the appointment of auditors and for the approval of the amendment to the Corporation's articles to redesignate the Class A Shares as "Class A Non-Voting Shares", as stated under those headings in this circular.**

The enclosed proxy form also confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting, or other matters not identified which may properly come before the meeting. At the date of this circular the management of the Corporation knows of no such amendments, variations or other matters to come before the meeting.

Voting Shares and Principal Shareholders

Holders of record of Common Shares will be entitled to vote at the Annual and Special Meeting of Shareholders, and will be entitled to one vote for each Common Share held.

At the date of this circular, the Corporation has outstanding 868,950 Common Shares.

Indebtedness of Officers

The following officers were indebted to the Corporation in respect of non-interest bearing loans during the fiscal year of the Corporation ended August 31, 1982.

Officer	Largest Balance During the Period	Present Balance
D. E. Bridgman, Toronto	(1) \$ 32,940	\$ 31,140
	(2) 6,000	5,000
R. A. Field, Whitevale	(1) 21,960	—
	(2) 27,000	23,375
C. F. Gill, Toronto	(1) 21,960	—
	(2) 27,950	26,350
K. N. Nevison, Burlington	(1) 10,980	10,380
	(2) 29,578	23,658
R. P. Picotte, Oakville	(1) 21,960	—
	(2) 18,536	14,136
J. T. Roddy, Toronto	(1) 164,700	—
	(2) 27,500	17,500
A.W. Southard, Toronto	(1) 32,940	31,140
	(2) 45,000	42,187

(1) On account of a loan to purchase shares of the Corporation.

(2) On account of a loan to finance his home for which a ten year non-interest bearing mortgage was taken as security.

Pension Plan

The estimated aggregate cost to the Corporation in the last financial year of all pension benefits proposed to be paid to the directors and officers of the Corporation under existing pension plans in the event of their retirement at normal retirement age was \$11,600.

Employee Stock Purchase Plan

In addition to the loans to purchase shares of the Corporation noted under the heading "Indebtedness of Officers" above, in 1979 the Corporation provided a number of employees with interest-free loans to enable such employees to purchase shares under the Corporation's Employee Stock Purchase Plan. The loans are interest-free, repayable upon demand and in any event in ten annual installments. As at November 30, 1982 there remain outstanding loans to 26 employees other than officers, in the aggregate amount of 280,260.

Appointment of Auditors

The persons named in the accompanying proxy form intend to vote for the reappointment of Clarkson Gordon, Chartered Accountants, Toronto as auditors of the Corporation. Clarkson Gordon were first appointed as Auditors of the Corporation on June 22, 1966.

Amendment of Articles

The current policies of the Ontario Securities Commission and the Toronto Stock Exchange require that the Class A Shares of the Corporation be redesignated as "Class A Non-Voting Shares". This is simply a change in the name of the shares to make the name more descriptive. It does not affect the rights attaching to the Class A Shares. The persons named in the accompanying proxy form intend to vote for the approval of the following Special Resolution:

Glenoak Investments Limited, a family holding company and an associate of Bertrand Gerstein, is the beneficial owner of 275,256 Class A and 299,072 Common Shares of the Corporation. Dewbourne Investments Limited, a family holding company and an associate of Marvin Gerstein, is the beneficial owner of 299,819 Class A and 241,000 Common Shares of the Corporation. Gail Gerstein, an associate of Irving Gerstein, exercises control or direction over a further 123,630 Class A and 168,350 Common Shares of the Corporation owned by Camf Holdings Limited. In addition, Irving Gerstein's children and family trusts for those children, of which Irving and Gail Gerstein are co-trustees, own 320 Class A and 1,200 Common Shares of the Corporation.

Directors' and Officers' Remuneration from the Corporation and its subsidiaries

Information respecting remuneration and benefits of Directors and Officers

For the Year Ended August 31, 1982
Nature of Remuneration Earned
From the Corporation (1)

	Directors' Fees	Salaries	Bonuses	Non- accountable expense all.	Others	Total
Remuneration of Directors as such (Total Number: 6)	\$11,200	—	—	—	—	\$ 11,200
Remuneration of Officers, as such, receiving over \$40,000 (Total Number: 9)	—	\$1,371,912	\$16,500	—	—	\$1,388,412
Totals	\$11,200	\$1,371,912	\$16,500	—	—	\$1,399,612

(1) No remuneration was paid to directors or officers of the Corporation by wholly- or partially-owned subsidiaries of the Corporation.

Directors' and Officers' Liability Insurance

The Corporation maintains insurance for the benefit of the directors and officers of the Corporation and its subsidiaries, and for the benefit of the Corporation and its subsidiaries. Directors and officers are insured against liabilities incurred as such, and are also entitled to indemnification to the extent permitted under the by-laws of the Corporation or its subsidiaries. The Corporation and its subsidiaries are insured against liabilities incurred under the indemnifications. The policy runs to August 1985, at a prepaid total premium of \$17,000, all of which is borne by the Corporation. The policy contains a 5% co-insurance clause and retention or deductibility provisions (for directors, \$5,000 per director and \$10,000 overall; for the Corporation, \$10,000). The policy limits are \$5,000,000 per loss or in the aggregate in each year of the policy.

To the knowledge of the directors and officers of the Corporation, the following are the only persons or companies who beneficially own, or exercise control or direction over, more than 10% of the Common Shares:

Name of Shareholder	Approximate No. of Shares	Percentage of Outstanding Shares
Bertrand Gerstein (personally and through Glenoak Investments Limited)	299,088	34.4%
Gail Gerstein (through Camf Holdings Limited)	169,550	19.5%
Marvin Gerstein (personally and through Dewbourne Investments Limited)	296,228	34.1%

Election of Directors

Under the Corporation's charter documents, the number of directors on the Board may range from a minimum of five to a maximum of twelve. The number of directors is currently fixed at six. Directors are elected annually. The term of office of each of the following proposed nominees will expire at the next Annual Meeting of the Shareholders of the Corporation or when a successor is duly elected or appointed. It is the intention of the persons named in the enclosed proxy-form, unless instructed otherwise, to vote for the election of each proposed nominee listed below as a director. The proposed nominees are currently directors of the Corporation and have held such office since the dates indicated below.

The management of the Corporation does not contemplate that any of the proposed nominees will be unable to serve as a director but, if that should occur for any reason prior to the meeting, proxies in favour of management may be voted for another nominee in their discretion unless the shareholder has specified in the proxy that his shares are being withheld from voting in the election of directors.

The following table indicates the names of the six proposed nominees, their present principal occupations or employment, all other positions and offices with the Corporation now held by them, if any, the date they were first elected and the approximate number of shares of the Corporation beneficially owned or over which control or direction is exercised by them, according to the information furnished by them to the Corporation.

Proposed Nominee	Principal Occupation	Became a Director	Shares in the Corporation	
			Class A	Common
Bertrand Gerstein	Chairman of the Board	1938	116,416	16
Marvin Gerstein	Vice-Chairman of the Board	1949	128,966	55,228
*Irving R. Gerstein	President	1964	856	840
*Sydney M. Hermant	Chairman, Imperial Optical Company Limited, ophthalmic manufacturers	1973	20	200
*Robert A. Kingston, Q.C.	Partner in law firm of Blake, Cassels & Graydon	1973	2,220	200
Phyllis McAllister	Secretary of the Corporation	1977	9,736	3,640

*Member of Audit Committee

RESOLVED as a special resolution that:

1. The articles of the Corporation be and they are hereby amended to redesignate the Class A Shares as Class A Non-Voting Shares; and
2. The directors and proper officers of the Corporation be and they are hereby authorized to take all such action and execute and deliver all such instruments and documentation as may be necessary or desirable to implement the foregoing.

The amendment of articles will be approved if not less than two-thirds of the votes cast in respect of the special resolution are for the approval thereof.

The contents and sending of this Proxy Circular have been approved by the Directors of the Corporation.

Dated at Toronto as of the 30th day of November, 1982

Phyllis McAllister, Secretary

Peoples Jewellers Limited

Directors

Bertrand Gerstein
Chairman

Marvin Gerstein
Vice-chairman

*Irving R. Gerstein

*Sydney M. Hermant

*Robert A. Kingston, Q.C.

Phyllis M. McAllister

* member of audit committee

Officers

Bertrand Gerstein
Chairman of the board

Marvin Gerstein
Vice-chairman

Irving R. Gerstein
President

James T. Roddy
Executive vice-president

Donald E. Bridgman
Vice-president, store planning

Richard A. Field
Vice-president, real estate

Charles F. Gill
Vice-president, finance

Phyllis M. McAllister
Secretary

Kenneth N. Nevison
Vice-president, operations
Peoples stores division

Roger P. Picotte
Vice-president, operations
Guild stores division

Alan W. Southard
Vice president, computer services

Head office

181 Yonge Street, Toronto, Canada

Transfer agent

Guaranty Trust Company of Canada
88 University Avenue, Toronto, Canada

Peoples Jewellers Limited

Two hundred and eighty-two stores

As at August 31, 1982

	Peoples stores	Guild stores	Total
BRITISH COLUMBIA			
Abbotsford	1	1	2
Campbell River	1		1
Chilliwack	1		1
Cranbrook	1	1	2
Kamloops	2		2
Kelowna	1		1
Langley	1		1
Nanaimo	4		4
Nelson	1		1
Penticton	1		1
Port Alberni	1		1
Prince George	2	1	3
Trail	1		1
Vancouver	7	8	15
Vernon	1		1
Victoria	3		3
	29	11	40

ALBERTA			
Calgary	8	9	17
Edmonton	13	10	23
Fort McMurray	1		1
Lethbridge	2	1	3
Red Deer	2	1	3
	26	21	47

SASKATCHEWAN			
Lloydminster	1		1
Moose Jaw	2	1	3
Prince Albert	2		2
Regina	4	4	8
Saskatoon	5	1	6
Weyburn	1		1
	15	6	21

MANITOBA			
Brandon	1		1
Winnipeg	9	4	13
	10	4	14

ONTARIO			
Barrie	1		1
Belleville	1	1	2
Brantford	1	1	2
Brockville	1		1
Chatham	1		1
Cornwall	2	1	3
Elliot Lake	1		1
Hamilton/Burlington	5	4	9
Kingston	3		3
Kitchener/Waterloo	2	1	3
London	2	2	4
Niagara Falls	1	1	2
New Liskeard	1		1
North Bay	1		1

Oshawa	1		1
Ottawa/Hull	6	4	10
Peterborough	1		1
Sarnia	1		1
Sault Ste. Marie	1	2	3
Sudbury	2		2
Thunder Bay	2	1	3
Tillsonburg	1		1
Timmins	1	1	2
Toronto	23	10	33
Welland	1	1	2
Windsor	3	2	5
Woodstock	1		1
	67	32	99

QUEBEC			
Granby	1		1
Montreal	13	2	15
Quebec City	4	1	5
Shawinigan	1		1
Sherbrooke	1	1	2
Tracy	1		1
	21	4	25

NEW BRUNSWICK			
Atholville	1		1
Bathurst	1	1	2
Douglastown	1		1
Fredericton	1		1
Moncton	3	1	4
Saint John	4		4
	11	2	13

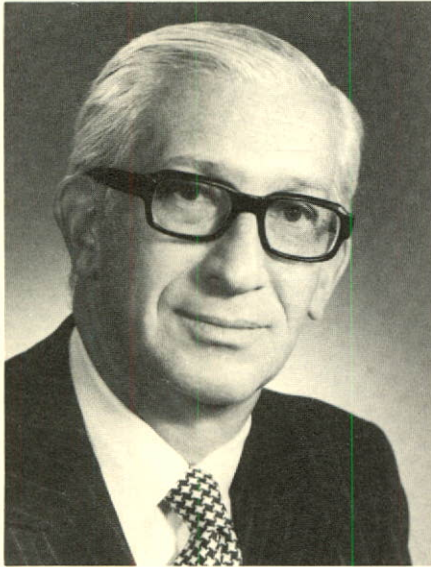
NOVA SCOTIA			
Amherst	1		1
Bedford	1		1
Bridgewater	1		1
Dartmouth	1	2	3
Halifax	3	3	6
New Glasgow	1		1
Port Hawksbury	1		1
Sydney	2	1	3
Truro		1	1
	11	7	18

PRINCE EDWARD ISLAND			
Charlottetown	1		1

NEWFOUNDLAND			
Carbonear	1		1
Cornerbrook	1		1
St. John's	2		2
	4		4

Total	195	87	282
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Directors' Report to the Shareholders



The accompanying financial statements for the year ended August 31, 1982 indicate sales of \$127,220,000 as compared with \$122,934,000 the year previous, an increase of 4%. Net income from continuing operations was \$1,518,000 as compared with \$5,015,000, a decrease of 70%. These results include a loss of \$498,000 representing the Company's equity interest in the results of Zale Corporation for their four quarters ended June 30, 1982, net of related interest costs. Earnings per share from continuing operations were \$.36 as compared with \$1.36.

Net loss for the fiscal period was \$6,196,000 as compared to income of \$4,269,000 the year previous. Loss per share was \$1.46 as compared with earnings per share of \$1.16. The net loss includes a gain on the sale of property of \$1,000,000 and a loss of \$8,714,000 on the sale of the U.S. Division.

On June 10, 1982, the Company sold its U.S. Division to Jewelers Management Corporation, an affiliate of Barry's Jewelers Inc.

Under the sale agreement, the assets of the Division were sold for \$17,535,000 U.S. of which \$6,000,000 U.S. was received in cash. The balance of the sale price is receivable over the next five and one half years and bears interest at rates ranging between 10% and 15%. The loss from discontinued operations includes the operating loss of the U.S. Division to the date of the sale, the loss on the sale and an appropriate discount for the note receivable.

What has become very apparent is that there has been a fundamental change in the nature of retail merchandising in the 80's as compared with the 70's. The 70's was a decade of accelerated growth. The development of shopping centres across Canada provided additional markets along with increased disposable income. Peoples Jewellers Limited recognized the significance of this change and from 1970 until 1979, the Company increased its number of stores from 90 to 251. Sales and profits increased accordingly.

It is becoming increasingly apparent that the environment of the 80's, certainly for the next few years, will be different. New shopping centre development will be curtailed and unemployment and lower economic growth will adversely affect consumer spending. During the year under review the Company opened eleven stores and closed eleven stores. This is the first time in the history of the Company that as many stores have been closed as opened. Many of these closures were stores opened over the past fifteen years in areas where newer regional shopping centres have since been developed.

Although the Company's earnings were adversely affected by slower sales growth and higher interest

rates, it is of interest to note that while sales were down 6% in the first quarter of the year, and up only 3% in the second and third quarters, the fourth quarter showed sales increases of some 17%. Present indications are that the first quarter of the current fiscal year will show a substantial increase over the previous year and management is confident this trend will continue during the remainder of the year.

During the year, four new appointments were made in the Company's senior management. James T. Roddy was appointed Executive Vice-President, Charles F. Gill was appointed Vice-President, Finance, Kenneth N. Nevison was appointed Vice-President, Operations, Peoples Stores Division and Roger P. Picotte was appointed Vice-President, Operations, Guild Stores Division.

This has been a very difficult year. However, with the improvement in sales, a vigorous marketing program, greater efficiency in operations, and lower interest rates, management anticipates a substantial improvement in the year ahead.

In closing I should like to express the thanks of the Company to the more than 2,500 employees across Canada for their loyal support during fiscal 1982.

Respectfully submitted on behalf of the Board.

A handwritten signature in cursive script that reads "Bertrand Gerstein".

Bertrand Gerstein
Chairman of the Board

Toronto, Canada
November 1, 1982

Peoples Jewellers Limited

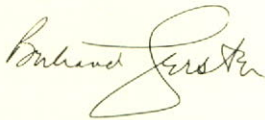
(Incorporated under the laws of Canada)

Consolidated Balance Sheet

(000's omitted)

	August 31, 1982	August 31, 1981
Assets		
Current assets:		
Cash	\$ 80	\$ 79
Accounts receivable	1,624	2,680
Merchandise	64,582	71,637
Prepaid expenses	402	369
Total current assets	66,688	74,765
Long-term receivables (note 3)	13,486	1,592
Investment in Zale Corporation (note 2)	70,044	42,547
Investment in Torcred Developments Limited	493	473
Net assets of discontinued operations (note 3)	—	642
Fixed assets:		
Buildings	3,631	3,882
Furniture, fixtures and automobiles	21,984	20,707
	25,615	24,589
Less accumulated depreciation	13,773	12,152
	11,842	12,437
Land	1,449	1,582
Leasehold interests and improvements	7,527	7,934
Total fixed assets	20,818	21,953
	\$171,529	\$141,972

On behalf of the Board:



Bertrand Gerstein, Director



Marvin Gerstein, Director

(The accompanying notes are an integral part of these statements)

Peoples Jewellers Limited

	August 31, 1982	August 31, 1981
Liabilities		
Current liabilities:		
Bank indebtedness	\$ 17,587	\$ 646
Accounts payable	9,361	13,872
Income and other taxes payable	1,069	153
Total current liabilities	28,017	14,671
Long-term debt (note 4)	91,500	63,210
Deferred income taxes	—	1,300
Shareholders' Equity		
Capital stock (note 5):		
Authorized –		
First Preferred shares		
Junior Preferred shares		
Class A shares		
Common shares		
Issued –		
	<u>Shares</u>	
First Preferred shares, Series A (1981 – 94,000)	59,000	708
Class A shares (1981 – 3,357,551)	3,261,151	23,281
Common shares (1981 – 886,650)	868,950	82
	24,071	25,182
Retained earnings	27,941	37,609
Total shareholders' equity	52,012	62,791
	\$171,529	\$141,972

Peoples Jewellers Limited

Consolidated statement of income

(000's omitted)

Year ended August 31	1982	1981
Sales	\$127,220	\$122,934
<i>Deduct:</i>		
Cost of merchandise sold and all other expenses except those listed below	116,942	102,885
Depreciation and amortization	3,861	3,279
Interest on long-term debt	2,516	2,527
Interest on bank indebtedness	1,885	1,839
	125,204	110,530
Income before provision for income taxes, equity in Zale Corporation earnings and extraordinary items	2,016	12,404
Provision for income taxes (note 6)	—	4,775
Income before equity in Zale Corporation earnings and extraordinary items	2,016	7,629
Equity in Zale Corporation earnings (note 2)	8,123	—
Less related interest cost (net of income taxes of \$2,000; \$2,500 in 1981)	8,621	2,614
	(498)	(2,614)
Income from continuing operations before extraordinary items	1,518	5,015
Gain on sale of property (net of income taxes of \$400)	1,000	—
Loss from discontinued operations (note 3)	8,714	746
Net (loss) income for the year	\$ (6,196)	\$ 4,269
Earnings per Class A and Common share:		
Income from continuing operations before extraordinary items	\$ 0.36	\$ 1.36
Net (loss) income for the year	\$ (1.46)	\$ 1.16

Consolidated statement of retained earnings

(000's omitted)

Year ended August 31	1982	1981
Retained earnings, beginning of year	\$ 37,609	\$ 36,738
Net (loss) income for the year	(6,196)	4,269
	31,413	41,007
Dividends:		
First Preferred shares, Series A	44	58
Class A shares	1,980	1,715
Common shares	524	533
	2,548	2,306
Commission (after tax) on issue of Class A shares	—	308
Cost of purchased shares over stated value	924	784
	3,472	3,398
Retained earnings, end of year	\$ 27,941	\$ 37,609

(The accompanying notes are an integral part of these statements)

Peoples Jewellers Limited

Consolidated statement of changes in financial position

(000's omitted)

Year ended August 31	1982	1981
Funds were provided from:		
Continuing operations –		
Income from continuing operations	\$ 1,518	\$ 5,015
Items not involving a flow of funds:		
Depreciation and amortization	3,861	3,279
Deferred income taxes	(1,300)	200
Equity in Zale Corporation earnings	(8,123)	—
Share of Torcred Developments Limited income	(20)	(35)
	(4,064)	8,459
Increase in long-term debt	28,290	63,210
Dividends received from Zale Corporation	2,393	—
Proceeds from sale of property	1,148	—
Issue of Class A shares	—	18,317
Total funds provided	27,767	89,986
Funds were applied to:		
Investment in Zale Corporation	21,767	42,547
Increase (decrease) in long-term receivables	11,894	(42)
Discontinued operations	8,072	734
Purchase of fixed assets	2,874	6,995
Dividends	2,548	2,306
Shares purchased for cancellation	2,035	912
Reduction in long-term debt	—	8,399
Redemption of First Preferred shares	—	132
Total funds applied	49,190	61,983
Increase (decrease) in working capital	(21,423)	28,003
Working capital, beginning of year	60,094	32,091
Working capital, end of year	\$ 38,671	\$ 60,094

(The accompanying notes are an integral part of these statements)

Auditors' Report

To the Shareholders of
Peoples Jewellers Limited

We have examined the consolidated balance sheet of Peoples Jewellers Limited as at August 31, 1982 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at August 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon
Chartered Accountants

Toronto, Canada, October 8, 1982.

Notes to Consolidated Financial Statements

August 31, 1982

1. Summary of significant accounting policies

(a) Long-term investments –

The accompanying consolidated financial statements include the accounts of Peoples Jewellers Limited and its subsidiaries. The investments in Zale Corporation and Torcred Developments Limited are accounted for on the equity basis.

(b) Merchandise –

Merchandise is stated at the lower of cost or net realizable value.

(c) Fixed assets –

Fixed assets are stated at cost and depreciated as follows:

Buildings	– 5% declining balance
Furniture and fixtures	– 10% straight-line
Electronic data equipment	– 20% straight-line

Leasehold improvements are stated at cost, less amortization on a straight-line basis over the term of the lease plus one renewal period with the total term not exceeding fifteen years.

(d) Income taxes –

The company follows the tax allocation method of providing for income taxes. Under this method, timing differences between reported and taxable income result in deferred taxes.

(e) Foreign currency translation –

Foreign currency amounts are translated into Canadian dollars on the following basis:

Long-term receivables	– at year-end exchange rates
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Long-term investment:

Cost of shares purchased	– at historical rates of exchange
Equity in earnings	– at average exchange rates prevailing during the year
Income and expenses	– at average exchange rates prevailing during the year

Translation gains or losses are included in income except for unrealized gains or losses on the long-term note receivable which are deferred and amortized over the unexpired term of the note on a straight-line basis.

2. Investment in Zale Corporation

Effective September 1, 1981, the company commenced accounting for its investment in Zale Corporation on the equity basis.

The company's equity in the net book value of the underlying assets of Zale Corporation exceeded the cost of its investment by approximately \$37,000,000 which has been primarily allocated as a reduction to fixed and other assets. The company's equity in Zale Corporation earnings has been adjusted by the amount of depreciation and amortization recorded by Zale on these assets.

3. Discontinued operations

During the year, the company sold the net assets of its U.S. subsidiary. The loss from discontinued operations, net of a recovery of income taxes of \$400,000, includes the operating results to the date of sale and the loss arising on the disposal of these assets. As part of the consideration on the sale, the company received an interest-bearing long-term note receivable which is denominated in U.S. dollars and is due in instalments from 1985 to 1988 which amount is included in long-term receivables.

4. Long-term debt

(000's omitted)

	1982	1981
Bank term loans due		
September 30, 1983 (including \$6,000(U.S.))	\$91,500	—
Bank term loan due December 31, 1982	—	\$20,884
Bank term loan due December 31, 1983 or 1985	—	42,326
	\$91,500	\$63,210

The bank term loans are at floating interest rates at not more than the bank's prime interest rate and repayment is required at maturity. The term loans are secured by a fixed and floating charge on the company's assets. The loan agreement includes a restriction on the payment of dividends.

5. Capital stock

(a) Capital stock changes –

During the year, the company purchased 35,000 First Preferred shares, Series A (including 10,000 from an officer), 96,400 Class A and 17,700 Common shares for cancellation at a total cost of \$2,035,000.

(b) Capital stock provisions –

Holders of First Preferred, Series A, Class A and Common shares may elect to receive stock dividends in lieu of cash, subject to the directors' declaring such dividends. The directors may declare such stock dividends in either Class A or redeemable Junior Pre-

ferred Shares. First Preferred Shares are convertible into Class A shares on a one for one basis or at the holder's option are redeemable for an amount equal to the issue price of \$12. These shares rank above the Junior Preferred shares as to dividends and claims against the company's property at dissolution. Junior Preferred shares are redeemable at 1¢ and rank above Class A shares and Common shares as to claims against the company's property at dissolution. Class A shares are non-voting, participating and have a preference over Common shares for dividends to the extent of 15¢ per share. After the Common shares also receive 15¢ per share, the two classes participate equally.

1983	\$6,282,000
1984	\$5,794,000
1985	\$5,080,000
1986	\$3,715,000
1987	\$3,034,000
Subsequent years	\$8,021,000

8. Comparative figures

Certain of the 1981 comparative figures have been reclassified to conform with the presentation adopted in 1982.

(c) Quarterly dividends –

The company paid quarterly dividends of 15¢ per First Preferred, Series A, Class A and Common shares. Under the Peoples Jewellers Optional Stock Dividend Plan, the directors have declared stock dividends in the form of Junior Preferred shares to shareholders who have elected to receive same under the plan. These Junior Preferred shares were immediately redeemed. Dividends were paid as follows:

(000's omitted)

	First Preferred	Class A	Common
Cash	\$35	\$1,321	\$297
Stock	9	659	227
TOTAL	\$ 44	\$1,980	\$524

6. Income Taxes

Income taxes provided are lower than statutory rates due to the 3% inventory allowance. The company has losses available for tax purposes of approximately \$8,000,000 which expire in 1987. In addition, the company has available allowable capital losses of approximately \$2,000,000 which can be applied indefinitely against future capital gains.

7. Commitments

A number of the company's store locations are leased under operating leases for periods from four to twenty years. Most of these leases are for minimum rentals and many contain percentage of sales clauses, and require the company to pay certain occupancy costs. The actual rental payments in the year amounted to \$10,586,000. The minimum rentals payable under all such leases currently in force for subsequent fiscal years are as follows:

