NOTE A: NATURE OF BUSINESS

EarthWear markets high-quality clothing for outdoor sports, casual clothing, accessories, shoes and soft luggage. The company manages its business in three operating segments consisting of core, business-to-business and international. The company's primary market is Europe; other markets include Japan, and the USA.

NOTE B: BASIS OF PREPARATION

The consolidated financial statements have been prepared based on a historical cost basis, except for derivatives that have been measured at fair value.

NOTE C: STATEMENT OF COMPLIANCE

The consolidated financial statements of EarthWear have been prepared in accordance with International Financial Reporting Standards (IFRSs).

NOTE D: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION The consolidated financial statements include the financial statements of EarthWear and its subsidiaries after elimination of intercompany balances and transactions.

USE OF ESTIMATES The preparation of financial statements in accordance with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from these estimates.

REVENUE RECOGNITION The company recognizes revenue at the time of shipment for catalogue and E-commerce sales and at the point for sale for stores. The company provides a reserve for returns.

RESERVE FOR LOSSES ON CUSTOMER RETURNS At the time of sale, the company provides a reserve equal to the gross profit on projected merchandise returns, based on prior returns experience.

INVENTORY Inventory is measured using the first-in, first-out (FIFO) method and valued at the lower of cost and net realizable value.

ADVERTISING The company expenses the costs of advertising for magazines, television, radio and other media the first time the advertising takes place, except for direct-response advertising, which is capitalized and amortized over its expected period of future benefits. Direct-response advertising consists primarily of catalogue production and mailing costs, which are generally amortized within three months from the date catalogues are mailed.

DEPRECIATION Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets, which are 20 to 30 years for buildings and land improvements and 5 to 10 years for leasehold improvements and furniture, fixtures, equipment and software. The company allocates one half year of depreciation to the year of addition or retirement.

GOODWILL Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK The company uses import letters of credit to purchase foreign-sourced merchandise. The letters of credit are primarily Euro-denominated and are issued through third party financial institutions to guarantee payment for such merchandise within the agreed-upon time periods. At 31 December 2013, the company had outstanding letters of credit of approximately €23 million, all of which had expiration dates of less than one year.

FOREIGN CURRENCY TRANSLATIONS AND TRANSACTIONS Financial statements of the foreign subsidiaries are translated into Euros.

NOTE E: STOCKHOLDERS' EQUITY

The company currently is authorized to issue 70 million shares of €0.01 par value common shares.

TREASURY SHARES The company's board of directors has authorized the purchase of a total of 12.7 million shares of the company's common shares. A total of 6.5 million and 6.7 million had been purchased as of 31 December 2013 and 2012, respectively.

SHARE-BASED PAYMENT TRANSACTIONS The company has a restricted share-based payment plan. Under the provisions of the plan, a committee of the company's board may award shares of the company's common shares to its officers and key employees. Such shares vest over a 10-year period on a straight-line basis.

The granting of these awards has been recorded as deferred compensation based on the fair market value of the shares at the date of the grant. Compensation expense under these plans is recorded as shares vest.

The company has 3.5 million shares that may be issued pursuant to the exercise of options granted under the company's stock option plan. Options are granted at the discretion of a committee of the company's board of directors to officers and key employees of the company.

Equity settled awards are accounted for in accordance with IFRS 2, Share-based Payment.

NOTE F: LINES OF CREDIT

The company has unsecured domestic lines of credit with various European banks totalling €150 million. There were €23.4 million amounts outstanding at 31 December 2013 compared to €20.2 million outstanding at 31 December 2012. In addition, the company has unsecured lines of credit with USA banks totalling the equivalent of €30 million for its wholly owned subsidiaries. At 31 December 2013, €11 million was outstanding at interest rates averaging 4.6 per cent, compared with €7.6 million at 31 December 2012.

NOTE G: LONG TERM DEBT

There was no long-term debt at 31 December 2013 and 2012.

NOTE H: LEASES

The company leases store and office space and equipment under various lease arrangements. The leases are accounted for as operating leases.

NOTE I: RETIREMENT PLANS

The company has a retirement plan that covers most regular employees and provides for annual contributions at the discretion of the board of directors.