

REITMANS

(CANADA) LIMITED

**Management's Discussion and Analysis
and
Unaudited Condensed Consolidated Interim Financial Statements**

For the 13 and 39 weeks ended November 3, 2018

REITMANS

(CANADA) LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the 13 and 39 weeks ended November 3, 2018 and the audited annual consolidated financial statements for the fiscal year ended February 3, 2018 and the notes thereto which are available on the SEDAR website at www.sedar.com. This MD&A is dated December 6, 2018.

All financial information contained in this MD&A and Reitmans' unaudited condensed consolidated interim financial statements has been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), as issued by the International Accounting Standards Board ("IASB"). All monetary amounts shown in the tables in this MD&A are in millions of Canadian dollars unless otherwise indicated, except per share and strike price amounts. The unaudited condensed consolidated interim financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on December 6, 2018.

Unless otherwise indicated, all comparisons of results for the 13 weeks ended November 3, 2018 ("third quarter of fiscal 2019") are against results for the 13 weeks ended October 28, 2017 ("third quarter of fiscal 2018") and all comparisons of results for the 39 weeks ended November 3, 2018 ("year to date fiscal 2019") are against results for the 39 weeks ended October 28, 2017 ("year to date fiscal 2018"). The fiscal year ended February 3, 2018 ("fiscal 2018") included 53 weeks instead of the normal 52 weeks. This results in each of the first three quarters of fiscal 2019 ending one week later than the comparative quarters of fiscal 2018, which can affect comparison of results.

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

FORWARD-LOOKING STATEMENTS

All of the statements contained herein, other than statements of fact that are independently verifiable at the date hereof, are forward-looking statements. Such statements, based as they are on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown, many of which are beyond the Company's control. Consequently, actual future results may differ materially from the anticipated results expressed in forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Forward-looking statements are based upon the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and currently expected future developments, as well as other factors it believes, are appropriate in the circumstances. This MD&A contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the Company's anticipated future results and events, future liquidity, planned capital expenditures, amount of pension plan contributions, status and impact of systems implementation, the ability of the Company to successfully implement its strategic initiatives and cost reduction and productivity improvement initiatives as well as the impact of such initiatives. These specific forward-looking statements are contained throughout this

MD&A including those listed in the “Operating and Financial Risk Management” section of this MD&A. Forward-looking statements are typically identified by words such as “expect”, “anticipate”, “believe”, “foresee”, “could”, “estimate”, “goal”, “intend”, “plan”, “seek”, “strive”, “will”, “may” and “should” and similar expressions, as they relate to the Company and its management.

Numerous risks and uncertainties could cause the Company’s actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including:

- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates, interest rates, currency exchange rates or derivative prices;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- the changing consumer preferences toward e-commerce, online retailing and the introduction of new technologies;
- seasonality and weather;
- the inability of the Company’s information technology (“IT”) infrastructure to support the requirements of the Company’s business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cyber security or data breaches;
- failure to realize benefits from investments in the Company’s new IT systems;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrinkage;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies associated with the Company’s major initiatives, including those from restructuring;
- changes in the Company’s income, capital, property and other tax and regulatory liabilities, including changes in tax laws, regulations or future assessments.

This is not an exhaustive list of the factors that may affect the Company’s forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company’s materials filed with the Canadian securities regulatory authorities from time to time. The reader should not place undue reliance on any forward-looking statements included herein. These statements speak only as of the date made and the Company is under no obligation and disavows any intention to update or revise such statements as a result of any event, circumstances or otherwise, except to the extent required under applicable securities law.

NON-GAAP FINANCIAL MEASURES

The Company has identified several key operating performance measures and non-GAAP financial measures which management believes are useful in assessing the performance of the Company; however, readers are cautioned that some of these measures may not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies.

In addition to discussing earnings in accordance with IFRS, this MD&A provides adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”) as a non-GAAP financial measure. Adjusted EBITDA is defined as net earnings before income tax expense/recovery, dividend income, interest income, net change in fair value of marketable securities, realized loss on disposal of marketable securities, interest expense, impairment of goodwill, depreciation, amortization and net impairment charges. The following table reconciles the most comparable GAAP measure, net earnings or loss, to adjusted EBITDA. Management believes that adjusted EBITDA is an important indicator of the Company’s ability to generate liquidity through operating

cash flow to fund working capital needs and fund capital expenditures and uses the metric for this purpose. The exclusion of dividend income, interest income and expense, the net change in fair value of marketable securities and realized loss on disposal of marketable securities eliminates the impact on earnings derived from non-operational activities. The exclusion of impairment of goodwill, depreciation, amortization and impairment charges eliminates the non-cash impact. The intent of adjusted EBITDA is to provide additional useful information to investors and analysts. The measure does not have any standardized meaning under IFRS. Although depreciation, amortization and impairment charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, as such, adjusted EBITDA does not reflect any cash requirements for these replacements. Adjusted EBITDA should not be considered either as discretionary cash available to invest in the growth of the business or as a measure of cash that will be available to meet the Company's obligations. Other companies may calculate adjusted EBITDA differently. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring. Adjusted EBITDA should not be used in substitute for measures of performance prepared in accordance with IFRS or as an alternative to net earnings, net cash provided by operating, investing or financing activities or any other financial statement data presented as indicators of financial performance or liquidity, each as presented in accordance with IFRS. Although adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, it has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under IFRS.

The Company considers results from operating activities a useful measure of the Company's performance from its retail operations. The Company has also determined that a useful measure would be results from operating activities before impairment of goodwill which excludes the impact of impairment of goodwill which is a non-cash item. Additionally, earnings per share excluding impairment of goodwill both on a basic and diluted basis have been presented which removes the impact of impairment of goodwill on net earnings used for calculation purposes. Both of these supplementary measures are considered useful information and should not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS.

The Company uses a key performance indicator ("KPI"), same store sales, to assess store performance and sales growth. The Company has embarked on an omni-channel approach to engaging with customers. Due to the cross-channel behavior of consumers, the Company has launched its initiative aimed at appealing to its customers shopping habits through either online or store channels. This approach allows customers to shop online for home delivery, pickup in-store, purchase in any of our store locations or ship to home from our stores when products are unavailable. Due to customer cross-channel behavior, the Company reports a single comparable sales metric, inclusive of store and e-commerce channels. Same store sales are defined as sales generated by stores that have been continuously open during both of the periods being compared and include e-commerce sales. Same store sales exclude sales from wholesale accounts. The same store sales metric compares the same calendar days for each period. Although this KPI is expressed as a ratio, it is a non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Management uses same store sales in evaluating the performance of stores and considers it useful in helping to determine what portion of new sales has come from sales growth and what portion can be attributed to the opening of new stores. Same store sales is a measure widely used amongst retailers and is considered useful information for both investors and analysts. Same store sales should not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS.

The following table reconciles net earnings (loss) to adjusted EBITDA:

	Third quarter		Year to date fiscal	
	2019	2018 ¹	2019	2018 ¹
Net earnings (loss)	\$ 8.9	\$ (16.8)	\$ 15.7	\$ (14.0)
Depreciation, amortization and net impairment losses	8.5	10.6	28.8	32.3
Goodwill impairment	-	26.3	-	26.3
Dividend income	(0.5)	(0.6)	(1.8)	(1.8)
Interest income	(0.7)	(0.3)	(1.5)	(0.7)
Net change in fair value of marketable securities	2.6	(2.1)	3.7	(5.3)
Realized loss on disposal of marketable securities	0.1	-	0.1	-
Income tax expense	3.5	1.8	5.7	1.5
ADJUSTED EBITDA	\$ 22.4	\$ 18.9	\$ 50.7	\$ 38.3
ADJUSTED EBITDA as % of Sales	9.3%	7.8%	7.3%	5.5%

¹ Comparative figures have been restated because of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 3(a) in the third quarter of fiscal 2019 unaudited condensed consolidated interim financial statements.

OVERVIEW

The Company has a single reportable segment that derives its revenue primarily from the sale of ladies' specialty apparel to consumers through its six retail banners. The Company's stores are primarily located in malls and retail power centres across Canada while also offering e-commerce website shopping for all of its banners. The online channels provide customers convenience, selection and ease of purchase, while enhancing customer loyalty and continuing to build the brands. The Company currently operates under the following banners:

Reitmans

The Reitmans banner, operating stores averaging 4,600 sq. ft., is one of Canada's largest women's apparel specialty chain and leading fashion brand. Reitmans has developed strong customer loyalty through superior service, insightful marketing and quality merchandise.

Penningtons

Penningtons is a leader in the Canadian plus-size market, offering trend-right styles and affordable quality for plus-size fashion sizes 14–32. Penningtons operates stores averaging 6,000 sq. ft. in power centres across Canada.

ADDITION ELLE

Addition Elle is a fashion destination for plus-size women with a focus on fashion, quality and fit delivering the latest "must-have" trends to updated fashion essentials in an inspiring shopping environment. Addition Elle operates stores averaging 6,000 sq. ft. in major malls and power centres nationwide.

RW&CO.

RW & CO. operates stores averaging 4,500 sq. ft. in premium locations in major shopping malls, catering to a customer with an urban mindset by offering fashions for men and women.



Thyme Maternity is a leading fashion brand for moms-to-be, offering current styles for every aspect of life, from casual to work, plus a complete line of nursing fashions and accessories. Thyme operates stores averaging 2,000 sq. ft. in major malls and power centres across Canada.



Hyba brand products consist of on-trend activewear and yoga clothes for exercising or sports in sizes XS to 2X.

On March 1, 2018, the Company announced its decision to close all of its Hyba store locations by the end of its current fiscal year, February 2, 2019. The Company is confident in the long-term growth potential of the Hyba brand and has determined that the optimum strategy is to continue to offer Hyba-branded products across Canada through the Company's Reitmans store locations and e-commerce channel.

RETAIL BANNERS

	Number of stores at February 3, 2018	Q1 Openings	Q1 Closings	Q2 Openings	Q2 Closings	Q3 Openings	Q3 Closings	Number of stores at November 3, 2018	Number of stores at October 28, 2017
Reitmans	270	-	(1)	-	(1)	-	(3)	265	276
Penningtons	122	-	(1)	1	(3)	-	(1)	118	122
Addition Elle	90	-	(1)	-	(1)	-	(5)	83	93
RW & CO.	80	2	(2)	4	-	-	(1)	83	84
Thyme Maternity	63	3	(4)	1	(1)	1	(2)	61	61
Hyba	17	-	(1)	-	(1)	-	(1)	14	16
Total	642	5	(10)	6	(7)	1	(13)	624	652

Store closings take place for a variety of reasons as the viability of each store and its location is constantly monitored and assessed for continuing profitability. In most cases when a store is closed, merchandise at that location is sold in the normal course of business and any unsold merchandise remaining at the closing date is generally transferred to other stores operating under the same banner for sale in the normal course of business.

STRATEGIC INITIATIVES

The Company has undertaken a number of strategic initiatives to enhance its brands, improve productivity and profitability at all levels through system advances and foster a culture of process improvements.

Ongoing and new Company initiatives include:

INITIATIVES	STATUS
<p>Related to the planned growth of its e-commerce business, the Company intends to optimally fulfill orders by leveraging the inventory in its network of stores throughout Canada (ship from store). It is anticipated that this initiative, which includes enhancing inventory visibility and availability across all channels, will improve speed of delivery, accuracy of allocation and profitability.</p>	<p>The Company commenced its ship from store initiative in the third quarter of fiscal 2019 with its RW&CO banner. The Company is encouraged with the results and plans to implement the initiative for the remaining banners during the fiscal year ending February 1, 2020.</p>
<p>The Company is committed to deliver best-in-class digital customer experiences. Strategically, the Company has adopted a digital-first approach, to facilitate rapid and sustainable growth in the digital and omni-channel retail environment. This includes continued improvement to the customer's mobile experience along with an initiative to provide a more personalized shopping experience for its customers utilizing improved data quality to deliver a more individualized and relevant product offering.</p>	<p>The Company continues to enhance its core e-commerce platform, evolve its customer relationship management and marketing automation infrastructure and optimize its customer data management capabilities. The Company has partnered with a best-in-class vendor to support a personalization initiative in marketing to its customers. The personalization initiative is planned to commence on a limited test basis in the fourth quarter of fiscal 2019 with a full deployment in the following fiscal year.</p>
<p>The Company continues to develop its international growth strategy of selected brands.</p>	<p>The Company has a highly skilled and experienced team devoted to expanding sales internationally. The Company has focused its efforts on wholesale expansion beyond Canada with its plus-size offerings targeting major customers, predominantly in the U.S. During the third quarter of fiscal 2019, the Company implemented a wholesale enterprise planning system to improve efficiencies in its wholesale business relationships.</p>

OPERATING RESULTS FOR THE THIRD QUARTER OF FISCAL 2019 COMPARED TO THE THIRD QUARTER OF FISCAL 2018

	Third Quarter of Fiscal 2019	Third Quarter of Fiscal 2018 ¹	\$ Change	% Change
Sales	\$ 239.7	\$ 242.4	\$ (2.7)	(1.1%)
Cost of goods sold	103.3	106.5	(3.2)	(3.0%)
Gross profit	136.4	135.9	0.5	0.4%
Gross profit %	56.9%	56.1%		
Selling, distribution and administrative expenses	122.3	128.6	(6.3)	(4.9%)
Results from operating activities before impairment of goodwill	14.1	7.3	6.8	93.2%
Impairment of goodwill	-	26.3	(26.3)	-
Results from operating activities	14.1	(19.0)	33.1	n/a
Net finance (costs) income	(1.7)	4.0	(5.7)	n/a
Earnings (loss) before income taxes	12.4	(15.0)	27.4	n/a
Income tax expense	3.5	1.8	1.7	94.4%
Net earnings (loss)	\$ 8.9	\$ (16.8)	\$ 25.7	n/a
Adjusted EBITDA	\$ 22.4	\$ 18.9	\$ 3.5	18.5%
Earnings (loss) per share:				
Basic	\$ 0.14	\$ (0.27)	\$ 0.41	n/a
Diluted	0.14	(0.27)	0.41	n/a
Earnings per share excluding impairment of goodwill:				
Basic	\$ 0.14	\$ 0.15	\$ (0.01)	(6.7%)
Diluted	0.14	0.15	(0.01)	(6.7%)

¹ Comparative figures have been restated because of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 3(a) in the third quarter of fiscal 2019 unaudited condensed consolidated interim financial statements.

Sales

Sales for third quarter of fiscal 2019 were \$239.7 million, as compared with \$242.4 million for the third quarter of fiscal 2018, with a net reduction of 28 stores. The Company continues to execute against a plan adapting to the new retail environment by reducing its store presence in select markets while enhancing its e-commerce capabilities. Sales were negatively impacted for the third quarter of fiscal 2019 as compared to the third quarter of fiscal 2018 by approximately \$1.0 million due to the third quarter of fiscal 2019 ending one week later than the third quarter of fiscal 2018.

Same store sales, which include e-commerce sales, increased 0.2%. The Company continues to experience strong growth through its online channel. Due to customer cross-channel behavior, the Company reports a single comparable sales metric, inclusive of store and e-commerce channels.

Gross Profit

Gross profit for the third quarter of fiscal 2019 increased \$0.5 million or 0.4%, to \$136.4 million as compared with \$135.9 million for the third quarter of fiscal 2018. Gross profit was positively impacted by approximately \$0.8 million due to the third quarter of fiscal 2019 ending one week later than the third quarter of fiscal 2018 as the current quarter's results included a week with traditionally higher margins.

Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses for the third quarter of fiscal 2019 were \$122.3 million, compared to \$128.6 million in the third quarter of fiscal 2018. The decrease of \$6.3 million is primarily attributable to a reduction in store operating costs due to fewer stores, lower depreciation, amortization and net impairment losses and reduction in operating costs, partially offset by an increase in employee performance incentive plan costs.

Impairment of Goodwill

As at October 28, 2017, following a review of the profitability of the Addition Elle banner, the Company's impairment testing concluded that the carrying value of goodwill exceeded the recoverable amount. As a result, the Company recorded a goodwill impairment loss of \$26.3 million in the third quarter of fiscal 2018. As at November 3, 2018, the Company assessed that no further indicator of impairment existed.

Net Finance Income

Net finance costs were \$1.7 million for the third quarter of fiscal 2019 as compared to net finance income of \$4.0 million for the third quarter of fiscal 2018. This change is largely attributable to the following:

- a \$2.6 million decrease in the fair value of marketable securities for the third quarter of fiscal 2019 compared to an increase of \$2.1 million for the third quarter of fiscal 2018.
- a \$0.2 million foreign exchange loss for the third quarter of fiscal 2019 compared to a \$1.0 million gain in the year to date fiscal 2018, largely attributable to the foreign exchange impact on U.S. denominated monetary assets and liabilities; partially offset by
- increased interest income, primarily derived from cash held with banks.

Income Taxes

The income tax expense for the third quarter of fiscal 2019 was impacted primarily by a \$2.6 million decrease in the fair value of marketable securities for which no deferred tax asset has been recognized, and tax-exempt dividend income relative to the Company's active business income. The Company's effective tax rates include the impact of changes in substantively enacted tax rates in various Canadian and foreign tax jurisdictions.

Net Earnings

Net earnings for the third quarter of fiscal 2019 were \$8.9 million (\$0.14 basic and diluted earnings per share) as compared with a net loss of \$16.8 million (\$0.27 basic and diluted loss per share) for the third quarter of fiscal 2018. The improvement in net earnings of \$25.7 million is attributable to improved results from operating activities in the third quarter of fiscal 2019 and a goodwill impairment charge that had been recorded during the third quarter of fiscal 2018. Excluding the \$26.3 million impairment of goodwill charge, net earnings for the third quarter of fiscal 2018 were \$9.5 million as compared to \$8.9 million in net earnings for the third quarter of fiscal 2019. The increased results from operating activities of \$6.8 million in the third quarter of fiscal 2019 was more than offset by the decrease in net finance income and an increase in income tax expense, as described above.

Adjusted EBITDA

Adjusted EBITDA for the third quarter of fiscal 2019 was \$22.4 million, as compared with \$18.9 million for the third quarter of fiscal 2018, an increase of \$3.5 million. The improvement in adjusted EBITDA is primarily due to the reduction of operating costs, as noted above.

OPERATING RESULTS FOR THE YEAR TO DATE FISCAL 2019 COMPARED TO THE YEAR TO DATE FISCAL 2018

	Year to Date Fiscal 2019	Year to Date Fiscal 2018 ¹	\$ Change	% Change
Sales	\$ 696.1	\$ 700.2	\$ (4.1)	(0.6%)
Cost of goods sold	305.7	312.8	(7.1)	(2.3%)
Gross profit	390.4	387.4	3.0	0.8%
Gross profit %	56.1%	55.3%		
Selling, distribution and administrative expenses	370.3	382.0	(11.7)	(3.1%)
Results from operating activities before impairment of goodwill	20.1	5.4	14.7	n/a
Impairment of goodwill	-	26.3	(26.3)	n/a
Results from operating activities	20.1	(20.9)	41.0	n/a
Net finance income	1.3	8.4	(7.1)	(84.5%)
Earnings (loss) before income taxes	21.4	(12.5)	33.9	n/a
Income tax expense	5.7	1.5	4.2	n/a
Net earnings (loss)	\$ 15.7	\$ (14.0)	\$ 29.7	n/a
Adjusted EBITDA	\$ 50.7	\$ 38.3	\$ 12.4	32.4%
Earnings (loss) per share:				
Basic	\$ 0.25	\$ (0.22)	\$ 0.47	n/a
Diluted	0.25	(0.22)	0.47	n/a
Earnings per share excluding impairment of goodwill:				
Basic	\$ 0.25	\$ 0.19	\$ 0.06	31.6%
Diluted	0.25	0.19	0.06	31.6%

¹ Comparative figures have been restated because of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 3(a) in the third quarter of fiscal 2019 unaudited condensed consolidated interim financial statements.

Sales

Sales decreased by \$4.1 million or 0.6% to \$696.1 million for the year to date fiscal 2019, with a net reduction of 28 stores. The Company continues to execute against a plan adapting to the new retail environment by reducing its store presence in select markets while enhancing its e-commerce capabilities. Sales for the year to date fiscal 2019 were positively impacted by approximately \$1.7 million due to the year to date fiscal 2019 ending one week later than the year to date fiscal 2018.

Same store sales, which include e-commerce sales, increased 1.0%. The Company continues to experience strong growth in its e-commerce channel. Due to customer cross-channel behavior, the Company reports a single comparable sales metric, inclusive of store and e-commerce channels.

Gross Profit

Gross profit as a percentage of sales for the year to date fiscal 2019 increased to 56.1% from 55.3% for the year to date fiscal 2018 primarily due to the positive foreign exchange impact of approximately \$5.9 million on U.S. dollar denominated purchases included in cost of goods sold. In addition, gross profit was positively impacted by approximately \$4.3 million due to the year to date fiscal 2019 ending one week later than the year to date fiscal 2018 as the current year to date fiscal 2019 results included a week with traditionally higher margins. These improvements were largely offset by increased promotional activity in the year to date fiscal 2019.

Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses were \$370.3 million for the year to date fiscal 2019, compared to \$382.0 million for the year to date fiscal 2018. The decrease of \$11.7 million is primarily attributable to a reduction in store operating costs due to fewer stores, lower depreciation, amortization and net impairment losses and reduction in operating costs, partially offset by increases in employee performance incentive plan and termination costs.

Impairment of Goodwill

As at October 28, 2017, following a review of the profitability of the Addition Elle banner, the Company's impairment testing concluded that the carrying value of goodwill exceeded the recoverable amount. As a result, the Company recorded a goodwill impairment loss of \$26.3 million in the year to date fiscal 2018. As at November 3, 2018, the Company assessed that no further indicator of impairment existed.

Net Finance Income

Net finance income was \$1.3 million for the year to date fiscal 2019 as compared to net finance income of \$8.4 million for the year to date fiscal 2018. This decrease is primarily attributable to the following:

- a \$3.7 million decrease in the fair value of marketable securities for the year to date fiscal 2019 compared to a \$5.3 million increase for the year to date fiscal 2018; partially offset by
- increased interest income, primarily derived from cash held with banks; and
- a \$1.8 million foreign exchange gain in the year to date fiscal 2019 compared to a \$0.6 million gain in the year to date fiscal 2018, largely attributable to the foreign exchange impact on U.S. denominated monetary assets and liabilities.

Income Taxes

The income tax expense for the year to date fiscal 2019 was impacted primarily by a \$3.7 million decrease in the fair value of marketable securities for which no deferred tax asset has been recognized, and tax exempt dividend income relative to the Company's active business income. The Company's effective tax rates include the impact of changes in substantively enacted tax rates in various Canadian and foreign tax jurisdictions.

Net Earnings

Net earnings for the year to date fiscal 2019 were \$15.7 million (\$0.25 basic and diluted earnings per share) as compared with net loss of \$14.0 million (\$0.22 basic and diluted loss per share) for the year to date fiscal 2018. The improvement in net earnings of \$29.7 million is primarily attributable to the \$26.3 million goodwill impairment charge incurred during the third quarter of fiscal 2018, the increase in results from operating activities, partially offset by the decrease in net finance income and the increase in income tax expense, as noted above.

Adjusted EBITDA

Adjusted EBITDA for the year to date fiscal 2019 was \$50.7 million, compared with \$38.3 million for the year to date fiscal 2018. The improvement in adjusted EBITDA is primarily due to the increase in gross profit resulting from the year to date fiscal 2019 ending one week later than the year to date fiscal 2018 coupled with the positive foreign exchange impact on U.S. dollar denominated purchases included in cost of goods sold and the reduction in operating costs, as noted above.

FOREIGN EXCHANGE CONTRACTS

The Company imports a majority of its merchandise purchases from foreign vendors, with lead times in some cases extending twelve months. The Company enters into foreign exchange forward contracts to hedge a significant portion of its exposure to fluctuations in the value of the U.S. dollar, generally up to twelve months in advance. The Company's policy is to satisfy at least 80% of projected U.S. dollar denominated merchandise purchases in any given fiscal year by way of foreign exchange forward contracts, with any additional requirements being met through spot U.S. dollar purchases.

Details of the foreign exchange forward contracts outstanding, all of which are designated as cash flow hedges are as follows:

	Average Strike Price	Notional Amount in U.S. Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
November 3, 2018	\$ 1.274	\$ 130.0	\$ 4.5	\$ -	\$ 4.5
October 28, 2017	\$ 1.303	\$ 199.5	\$ 1.6	\$ (5.5)	\$ (3.9)
February 3, 2018	\$ 1.286	\$ 204.5	\$ -	\$ (9.7)	\$ (9.7)

SUMMARY OF QUARTERLY RESULTS

Due to seasonality and the timing of holidays, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. The table below presents selected consolidated financial data for the eight most recently completed quarters. All references to "2019" are to the Company's fiscal year ending February 2, 2019, "2018" are to the Company's fiscal year ended February 3, 2018 and "2017" are to the Company's fiscal year ended January 28, 2017.

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2019 (13 weeks)	2018 ² (13 weeks)	2019 (13 weeks)	2018 ² (13 weeks)	2019 (13 weeks)	2018 ² (13 weeks)	2018 ² (14 weeks)	2017 ² (13 weeks)
Sales	\$ 239.7	\$ 242.4	\$ 248.8	\$ 250.8	\$ 207.6	\$ 207.1	\$ 264.2	\$ 248.4
Net earnings (loss)	8.9	(16.8) ¹	10.0	9.4	(3.2)	(6.6)	(1.9)	0.3
Earnings (loss) per share								
Basic	\$ 0.14	\$ (0.27) ¹	\$ 0.16	\$ 0.15	\$ (0.05)	\$ (0.10)	\$ (0.03)	\$ 0.00
Diluted	0.14	(0.27) ¹	0.16	0.15	(0.05)	(0.10)	(0.03)	0.00
Net earnings (loss) before impairment of goodwill	\$ 8.9	9.5	\$ 10.0	\$ 9.4	\$ (3.2)	\$ (6.6)	\$ (1.9)	\$ 0.3
Earnings (loss) per share excluding impairment of goodwill								
Basic	\$ 0.14	\$ 0.15	\$ 0.16	\$ 0.15	\$ (0.05)	\$ (0.10)	\$ (0.03)	\$ 0.00
Diluted	0.14	0.15	0.16	0.15	(0.05)	(0.10)	(0.03)	0.00

¹ Includes the impact of an impairment of goodwill of \$26.3 million related to the Addition Elle banner.

² Comparative figures have been restated because of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 3(a) in the third quarter of fiscal 2019 unaudited condensed consolidated interim financial statements. The financial data for the fourth quarter of fiscal 2017 does not reflect the adoption of IFRS 15.

BALANCE SHEET

Selected line items from the Company's balance sheets as at November 3, 2018 and February 3, 2018 are presented below:

	November 3, 2018	February 3, 2018 ¹	\$ Change	% Change
Cash and cash equivalents	\$ 124.7	\$ 104.7	\$ 20.0	19.1%
Marketable securities	58.2	62.0	(3.8)	(6.1%)
Trade and other receivables	6.0	4.9	1.1	22.4%
Net derivative financial asset (liability)	4.5	(9.7)	14.2	n/a
Inventories	149.9	137.1	12.8	9.3%
Property and equipment & intangible assets	118.7	129.7	(11.0)	(8.5%)
Deferred income taxes	24.2	28.0	(3.8)	(13.6%)
Income taxes (payable) recoverable	(4.5)	2.2	(6.7)	n/a
Trade and other payables (current and long-term)	121.3	102.3	19.0	18.6%
Deferred revenue	10.2	20.0	(9.8)	(49.0%)

¹ Comparative figures have been restated because of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 3(a) in the third quarter of fiscal 2019 unaudited condensed consolidated interim financial statements.

Changes in selected line items from the Company's balance sheets at November 3, 2018, as compared to February 3, 2018, were primarily due to the following:

- cash and cash equivalents increased primarily due to an increase of the Company's cash flows generated from operating activities, partially offset by investments in property and equipment and dividend payments;
- marketable securities decreased due to the net change in their fair value in the year to date fiscal 2019;
- trade and other receivables consist primarily of credit card sales from the last few days of the fiscal quarter, wholesale account receivables and government incentive program receivables. The increase is primarily due to higher wholesale account and credit card receivables;
- the change in the net derivative position is attributable to the impact of mark-to-market adjustments on foreign exchange forward contracts;
- inventories are slightly higher as a result of the normal build-up for the holiday selling season;
- the Company continues to closely manage its investment in property and equipment and intangible assets. The decrease reflects the reduction in the number of stores. For the year to date fiscal 2019, \$18.5 million was invested in property and equipment and intangible assets. Depreciation, amortization and net impairment losses of \$28.8 million were recorded in the year to date fiscal 2019;
- deferred income tax assets decreased largely due to taxable temporary timing differences arising on foreign exchange forward contracts. Deferred income taxes arise primarily due to deductible temporary timing differences on property and equipment, intangible assets and pension liability;
- income taxes payable increased primarily due to estimated tax liabilities and a reduction of taxes recoverable as amounts were received from tax authorities during the year to date fiscal 2019;
- trade and other payables were impacted mainly by the increase in inventory in the quarter and the timing of payments related to sales taxes. The Company's trade and other payables consist largely of trade payables, personnel liabilities, payables relating to premises and sales tax liabilities;
- deferred revenue decreased largely due to the timing of gift card redemptions. Deferred revenue consists of unredeemed gift cards, loyalty points and awards granted under customer loyalty award programs. Revenue is recognized when the gift cards, loyalty points and awards are redeemed.

OPERATING AND FINANCIAL RISK MANAGEMENT

Detailed descriptions of the operating and financial risks management strategies are included in the Company's annual MD&A and Annual Information Form for the fiscal year ended February 3, 2018 (which are available on the SEDAR website at www.sedar.com).

There have been no significant changes in the Company's operating and financial risk exposures during the year to date fiscal 2019.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company primarily uses funds for working capital requirements, capital expenditures and payment of dividends. Shareholders' equity as at November 3, 2018 amounted to \$355.0 million or \$5.61 per share (October 28, 2017 - \$349.8 million or \$5.52 per share; February 3, 2018 - \$342.0 million or \$5.40 per share). The Company continues to be in a strong financial position. The Company's principal sources of liquidity are its cash and cash equivalents and investments in marketable securities of \$182.9 million as at November 3, 2018 (October 28, 2017 - \$179.1 million; February 3, 2018 - \$166.7 million). Cash is held in interest bearing accounts with major Canadian financial institutions. The Company closely monitors its risk with respect to cash investments. The Company has unsecured operating lines of credit available with Canadian chartered banks to a maximum of \$75.0 million or its U.S. dollar equivalent. As at November 3, 2018, \$4.4 million (October 28, 2017 - \$4.1 million; February 3, 2018 - \$4.3 million) of the operating lines of credit were committed for documentary and standby letters of credit. These credit facilities are used principally to support U.S. dollar foreign exchange forward contract purchases, as a guarantee for government import duties and for U.S. dollar letters of credit to satisfy international third-party vendors not on open credit. The Company rarely uses such credit facilities for other purposes. The committed operating lines of credit are recorded when the Company considers it probable that a payment has to be made to the other party of the contract. The Company has recorded no liability with respect to these commitments.

The Company purchases insurance coverage from financially stable third-party insurance companies. The Company maintains comprehensive internal security and loss prevention programs aimed at mitigating the financial impact of theft.

As of November 6, 2017, the Company had fully repaid all its long-term debt. The Company paid \$0.05 dividends per share in the third quarter of fiscal 2019 totalling \$3.2 million, similar to the third quarter of fiscal 2018. The Company paid \$0.15 dividends per share in the year to date fiscal 2019 totalling \$9.5 million, similar to the year to date fiscal 2018. With regard to dividend policy, the Board of Directors considers the Company's earnings per share, cash flow from operations, the level of planned capital expenditures and its cash and marketable securities. The targeted payout ratio is approximately 50% to 80% of sustainable earnings per share, 50% to 75% of cash flow from operations with consideration as to the ability to augment the dividend from the liquidity on the Company's balance sheet, if these targets are missed in a given year. The Board of Directors reviews these guidelines regularly.

In the third quarter of fiscal 2019, the Company invested \$7.2 million and \$18.5 million in the year to date fiscal 2019 in capital expenditures, on a cash basis, primarily on store openings, renovations and technological investments as discussed in the "Strategic Initiatives" section of this MD&A. In fiscal 2019, the Company expects to invest approximately \$30.0 million in capital expenditures. These expenditures, together with the payment of dividends and any repayments related to the Company's bank credit facility are expected to be funded by the Company's existing financial resources and funds derived from its operations.

The Company expects that cash and cash equivalents, investments in marketable securities, future operating cash flows and amounts available to be drawn under operating lines of credit will enable the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital and financial obligations.

FINANCIAL COMMITMENTS

There have been no material changes in the Company's financial commitments that are outside of the ordinary course of the Company's business from those described in the Company's audited annual consolidated financial statements for the year ended February 3, 2018.

OUTSTANDING SHARE DATA

At December 6, 2018, 13,440,000 Common shares and 49,890,266 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. The Company has 1,937,800 share options outstanding at an average exercise price of \$8.06. Each share option entitles the holder to purchase one Class A non-voting share of the Company at an exercise price established based on the market price of the shares at the date the option was granted.

In the year to date fiscal 2019, the Company did not purchase any shares under the normal course issuer bid approved in December 2017. For further information with respect to the normal course issuer bid refer to the Company's audited annual consolidated financial statements for the year ended February 3, 2018.

OFF-BALANCE SHEET ARRANGEMENTS

Derivative Financial Instruments

The Company in its normal course of business must make long lead-time commitments for a significant portion of its merchandise purchases, in some cases as long as twelve months. Most of these purchases must be paid for in U.S. dollars. The Company considers a variety of strategies designed to manage the cost of its continuing U.S. dollar long-term commitments, including spot rate purchases and foreign exchange forward contracts with maturities generally not exceeding twelve months.

Details of the foreign exchange contracts outstanding as at November 3, 2018, October 28, 2017 and as at February 3, 2018 are included in the "Foreign Exchange Contracts" section of this MD&A.

A forward foreign exchange contract is a contractual agreement to buy or sell a specified currency at a specific price and date in the future. Credit risks exist in the event of failure by a counterparty to fulfill its obligations. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian financial institutions. The Company does not use derivative financial instruments for speculative purposes.

RELATED PARTY TRANSACTIONS

There have been no significant changes in related party transactions from those disclosed in the Company's audited annual consolidated financial statements for the year ended February 3, 2018.

FINANCIAL INSTRUMENTS

The Company is highly liquid with significant cash and cash equivalents along with marketable securities. The Company uses its cash resources to fund ongoing store construction and renovations along with working capital needs. Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, trade and other receivables and foreign exchange contracts. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian financial institutions. The Company closely monitors its risk with respect to short-term cash investments. Marketable securities consist of preferred shares of highly-rated Canadian public companies. The Company's investment portfolio is subject to stock market volatility.

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

CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

Key Sources of Estimation Uncertainty

There have been no significant changes in the key sources of estimation uncertainty and judgements made in relation to the accounting policies applied as disclosed in the Company's annual consolidated financial statements and MD&A for the year ended February 3, 2018 (which are available on the SEDAR website at www.sedar.com).

NEW ACCOUNTING POLICIES ADOPTED IN FISCAL 2019

The new accounting policies set out below have been adopted in the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2019:

- IFRS 15 - Revenue from Contracts with Customers
- IFRS 2 – Share-based Payment

Further information on these new accounting policies can be found in Note 3 of the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2019.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for fiscal 2019 and have not been applied in preparing the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2019. New standards and amendments to standards and interpretations that are currently under review include:

- IFRS 16 – Leases;
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

Further information on these modifications can be found in Note 3 of the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2019.

DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

There were no changes in the Company's internal control over financial reporting during the year to date fiscal 2019 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OUTLOOK

The Company is well positioned for the future with recognizable banners each offering a powerful, positive brand experience able to capitalize on a strong network of stores and an exceptional e-commerce proposition. A variety of measures have been implemented to improve profitability, including enhancing the product offerings, tighter inventory management and improving the customer experience both in stores and online. The Company is advancing significantly with its strategic initiatives aimed at supporting the changing consumer shopping behaviours to ensure success in responding to consumer demands.

The retail industry and consumer shopping behaviours are changing faster than ever before and, as a result, the Company recognizes its need to significantly increase its agility and improve efficiencies. The ability to quickly respond to these new demands and continue to reinvent will be key to long-term growth and future success.

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS

(Unaudited)

(in thousands of Canadian dollars except per share amounts)

	Notes	13 weeks ended		39 weeks ended	
		November 3, 2018	October 28, 2017 ⁽¹⁾	November 3, 2018	October 28, 2017 ⁽¹⁾
Sales		\$ 239,713	\$ 242,351	\$ 696,131	\$ 700,198
Cost of goods sold	5	103,268	106,468	305,736	312,800
Gross profit		136,445	135,883	390,395	387,398
Selling and distribution expenses		111,170	118,767	336,650	350,778
Administrative expenses		11,177	9,806	33,709	31,180
Impairment of goodwill	6	-	26,340	-	26,340
Results from operating activities		14,098	(19,030)	20,036	(20,900)
Finance income	12	1,186	4,026	5,120	8,423
Finance costs	12	2,890	8	3,761	47
Earnings (loss) before income taxes		12,394	(15,012)	21,395	(12,524)
Income tax expense	11	3,521	1,840	5,703	1,501
Net earnings (loss)		\$ 8,873	\$ (16,852)	\$ 15,692	\$ (14,025)
Earnings (loss) per share :	13				
Basic		\$ 0.14	\$ (0.27)	\$ 0.25	\$ (0.22)
Diluted		0.14	(0.27)	0.25	(0.22)

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

(1) Certain comparative figures have been restated (note 3a).

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(in thousands of Canadian dollars)

	13 weeks ended		39 weeks ended	
Notes	November 3, 2018	October 28, 2017⁽¹⁾	November 3, 2018	October 28, 2017⁽¹⁾
Net earnings (loss)	\$ 8,873	\$ (16,852)	\$ 15,692	\$ (14,025)
Other comprehensive (loss) income				
Items that are or may be reclassified subsequently to net earnings:				
Cash flow hedges (net of tax of \$154 for the 13 weeks and \$2,577 for the 39 weeks ended November 3, 2018; net of tax of \$2,725 for the 13 weeks and \$535 for the 39 weeks ended October 28, 2017)	9	(420) 7,524	7,021	(1,480)
Foreign currency translation differences	9	(40) (159)	(270)	71
Total other comprehensive (loss) income		(460) 7,365	6,751	(1,409)
Total comprehensive income (loss)	\$ 8,413	\$ (9,487)	\$ 22,443	\$ (15,434)

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

(1) Certain comparative figures have been restated (note 3a).

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Unaudited)

(in thousands of Canadian dollars)

	Notes	November 3, 2018	October 28, 2017 ⁽¹⁾	February 3, 2018 ⁽¹⁾
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	4	\$ 124,698	\$ 119,055	\$ 104,656
Marketable securities	15	58,233	60,040	62,025
Trade and other receivables		6,019	7,044	4,880
Derivative financial asset	15	4,518	1,638	37
Income taxes recoverable		-	1,307	2,248
Inventories	5	149,928	148,292	137,105
Prepaid expenses		20,503	7,938	19,187
Total Current Assets		363,899	345,314	330,138
NON-CURRENT ASSETS				
Property and equipment		99,219	113,219	110,292
Intangible assets		19,494	19,285	19,433
Goodwill	6	11,843	11,843	11,843
Deferred income taxes		24,159	26,143	28,015
Total Non-Current Assets		154,715	170,490	169,583
TOTAL ASSETS		\$ 518,614	\$ 515,804	\$ 499,721
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Trade and other payables	7	\$ 114,410	\$ 115,395	\$ 93,711
Derivative financial liability	15	-	5,521	9,745
Deferred revenue	8	10,174	13,174	19,994
Income taxes payable		4,507	-	-
Current portion of long-term debt	15	-	153	-
Total Current Liabilities		129,091	134,243	123,450
NON-CURRENT LIABILITIES				
Other payables	7	6,891	6,024	8,598
Deferred lease credits		8,069	6,424	6,450
Pension liability		19,589	19,322	19,236
Total Non-Current Liabilities		34,549	31,770	34,284
SHAREHOLDERS' EQUITY				
Share capital	9	38,397	38,397	38,397
Contributed surplus		10,164	10,161	10,119
Retained earnings		305,243	303,969	299,052
Accumulated other comprehensive income (loss)	9	1,170	(2,736)	(5,581)
Total Shareholders' Equity		354,974	349,791	341,987
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 518,614	\$ 515,804	\$ 499,721

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

(1) Certain comparative figures have been restated (note 3a).

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 39 weeks ended

(Unaudited)

(in thousands of Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as at February 4, 2018		\$ 38,397	\$ 10,119	\$ 297,895	\$ (5,581)	\$ 340,830
IFRS 15 adoption adjustment	3a	-	-	1,157	-	1,157
Restated balance as at February 4, 2018		38,397	10,119	299,052	(5,581)	341,987
Net earnings		-	-	15,692	-	15,692
Total other comprehensive income	9	-	-	-	6,751	6,751
Total comprehensive income for the period		-	-	15,692	6,751	22,443
Share-based compensation costs	10	-	45	-	-	45
Dividends	9	-	-	(9,501)	-	(9,501)
Total contributions by (distributions to) owners of the Company		-	45	(9,501)	-	(9,456)
Balance as at November 3, 2018		\$ 38,397	\$ 10,164	\$ 305,243	\$ 1,170	\$ 354,974
Balance as at January 29, 2017		\$ 38,397	\$ 9,769	\$ 326,675	\$ (1,327)	\$ 373,514
IFRS 15 adoption adjustment	3a	-	-	820	-	820
Restated balance as at January 29, 2017		38,397	9,769	327,495	(1,327)	374,334
Net loss		-	-	(14,025)	-	(14,025)
Total other comprehensive loss	9	-	-	-	(1,409)	(1,409)
Total comprehensive loss for the period		-	-	(14,025)	(1,409)	(15,434)
Share-based compensation costs	10	-	392	-	-	392
Dividends	9	-	-	(9,501)	-	(9,501)
Total contributions by (distributions to) owners of the Company		-	392	(9,501)	-	(9,109)
Balance as at October 28, 2017⁽¹⁾		\$ 38,397	\$ 10,161	\$ 303,969	\$ (2,736)	\$ 349,791

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

(1) Certain comparative figures have been restated (note 3a).

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands of Canadian dollars)

	13 weeks ended		39 weeks ended		
	Notes	November 3, 2018	October 28, 2017 ⁽¹⁾	November 3, 2018	October 28, 2017 ⁽¹⁾
CASH FLOWS FROM OPERATING ACTIVITIES					
Net earnings (loss)		\$ 8,873	\$ (16,852)	\$ 15,692	\$ (14,025)
Adjustments for:					
Depreciation, amortization and net impairment losses		8,446	10,596	28,785	32,311
Impairment of goodwill		-	26,340	-	26,340
Share-based compensation costs	10	31	(643)	206	(123)
Realized loss on sale of marketable securities		69	-	69	-
Net change in fair value of marketable securities	12	2,627	(2,089)	3,692	(5,276)
Net change in transfer of realized (gain) loss on cash flow hedges to inventory		(221)	(282)	(4,628)	94
Foreign exchange (gain) loss		(2,723)	2,151	(1,048)	1,859
Interest and dividend income, net	12	(1,186)	(953)	(3,290)	(2,523)
Income tax expense		3,521	1,840	5,703	1,501
		19,437	20,108	45,181	40,158
Changes in:					
Trade and other receivables		269	(1,727)	(1,160)	(2,785)
Inventories		(6,784)	99	(12,823)	(1,367)
Prepaid expenses		16	1,411	(1,316)	(1,092)
Trade and other payables		7,709	(194)	19,515	(2,375)
Pension liability		100	140	352	453
Deferred lease credits		860	(550)	1,619	(1,806)
Deferred revenue		(5,702)	(3,906)	(9,820)	(7,183)
Cash from operating activities		15,905	15,381	41,548	24,003
Interest paid	12	-	(8)	-	(47)
Interest received		581	317	1,394	749
Dividends received		663	611	1,917	1,818
Income taxes received		30	114	2,336	662
Income taxes paid		-	-	(4)	(7)
Net cash flows from operating activities		17,179	16,415	47,191	27,178
CASH FLOWS USED IN INVESTING ACTIVITIES					
Additions to property and equipment and intangible assets		(7,230)	(6,816)	(18,534)	(15,596)
Proceeds on disposal of property and equipment and intangibles		-	-	77	-
Purchases of marketable securities		(7,505)	-	(7,505)	-
Proceeds on sale of marketable securities		7,536	-	7,536	-
Cash flows used in investing activities		(7,199)	(6,816)	(18,426)	(15,596)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Dividends paid	9	(3,167)	(3,167)	(9,501)	(9,501)
Repayment of long-term debt	14	-	(508)	-	(1,502)
Cash flows used in financing activities		(3,167)	(3,675)	(9,501)	(11,003)
FOREIGN EXCHANGE GAIN (LOSS) ON CASH HELD IN FOREIGN CURRENCY		2,684	(2,310)	778	(1,789)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		9,497	3,614	20,042	(1,210)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD		115,201	115,441	104,656	120,265
CASH AND CASH EQUIVALENTS, END OF THE PERIOD		\$ 124,698	\$ 119,055	\$ 124,698	\$ 119,055

Supplementary cash flow information (note 14)

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

(1) Certain comparative figures have been restated (note 3a).

REITMANS (CANADA) LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Unaudited)

(in thousands of Canadian dollars except per share amounts)

1. REPORTING ENTITY

Reitmans (Canada) Limited (the “Company”) is a company domiciled in Canada and is incorporated under the Canada Business Corporations Act. The address of the Company’s registered office is 155 Wellington Street West, 40th Floor, Toronto, Ontario M5V 3J7. The principal business activity of the Company is the sale of women’s wear at retail.

2. BASIS OF PRESENTATION

a) Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 3, 2018.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on December 6, 2018.

b) Basis of Measurement

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

- marketable securities and derivative financial instruments are measured at fair value;
- the pension liability is recognized as the present value of the defined benefit obligation less the fair value of the plan assets; and
- liabilities for cash-settled share-based payment arrangements are measured in accordance with IFRS 2, *Share-Based Payment*.

c) Seasonality of Interim Operations

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

d) Functional and Presentation Currency

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

e) Estimates, Judgments and Assumptions

The preparation of the unaudited condensed consolidated interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. These estimates and assumptions are based on historical experience, other relevant factors and expectations of the future and are reviewed regularly. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied and described in the Company's audited annual consolidated financial statements for the year ended February 3, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended February 3, 2018 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

a) Adoption of new accounting policies

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Company adopted the standard for the annual period beginning February 4, 2018 and applied the requirements of the standard retrospectively, with the cumulative effects of initial application recorded in opening retained earnings on January 29, 2017 and with the restatement of comparative periods.

IFRS 15 impacted the allocation of revenue that is deferred in relation to the Company's customer loyalty award programs. Under IAS 18 and related interpretations, revenue was allocated to the customer loyalty awards using the residual fair value method. Under IFRS 15, the allocation of revenue that is deferred in relation to its customer loyalty award programs is allocated between the

loyalty program awards and the goods on which the awards were earned, based on their relative stand-alone selling prices.

IFRS 15 also impacted the allocation of revenue that is deferred in relation to gift cards sold. Previously, an estimate was made of gift cards not expected to be redeemed based on historical redemption patterns and was recognized as revenue. Under IFRS 15, if the Company expects to be entitled to a breakage amount for the gift cards, it recognizes the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer.

Previously, the Company recognized revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of sales returns. Under IFRS 15, when the Company makes a sale with a right of return it recognizes revenue at the amount to which it expects to be entitled. The Company also recognizes a refund liability and an asset for any goods that it expects to be returned. The refund liability is presented gross as a refund liability and an asset for recovery.

The following tables summarize the impact of adopting IFRS 15 on the Company's condensed consolidated interim financial statements:

Condensed Consolidated Interim Balance Sheets

	February 3, 2018		
	As reported	Restatements	As restated
Inventories	\$ 136,049	\$ 1,056	\$ 137,105
Deferred income taxes	28,441	(426)	28,015
Trade and other payables	92,655	1,056	93,711
Deferred revenue	21,577	(1,583)	19,994
Retained earnings	297,895	1,157	299,052
	October 28, 2017		
	As reported	Restatements	As restated
Inventories	\$ 146,654	\$ 1,638	\$ 148,292
Deferred income taxes	26,335	(192)	26,143
Trade and other payables	113,757	1,638	115,395
Deferred revenue	13,892	(718)	13,174
Retained earnings	303,443	526	303,969
	January 29, 2017		
	As reported	Restatements	As restated
Inventories	\$ 146,059	\$ 866	\$ 146,925
Deferred income taxes	25,891	(301)	25,590
Trade and other payables	114,254	866	115,120
Deferred revenue	21,478	(1,121)	20,357
Retained earnings	326,675	820	327,495

As the impact of adopting IFRS 15 on the balance sheet is limited to the above noted items, a restated balance sheet at January 29, 2017 has not been presented in the unaudited condensed consolidated interim balance sheets.

Condensed Consolidated Interim Statements of Earnings

	13 weeks ended October 28, 2017		
	As reported	Restatements	As restated
Sales	\$ 242,373	\$ (22)	\$ 242,351
Gross profit	135,905	(22)	135,883
Results from operating activities	(19,008)	(22)	(19,030)
Loss before income taxes	(14,990)	(22)	(15,012)
Income tax expense	1,846	(6)	1,840
Net loss	(16,836)	(16)	(16,852)

	39 weeks ended October 28, 2017		
	As reported	Restatements	As restated
Sales	\$ 700,601	\$ (403)	\$ 700,198
Gross profit	387,801	(403)	387,398
Results from operating activities	(20,497)	(403)	(20,900)
Loss before income taxes	(12,121)	(403)	(12,524)
Income tax expense	1,610	(109)	1,501
Net loss	(13,731)	(294)	(14,025)

The adoption of IFRS 15 had a nominal impact on loss per share for the comparative periods.

Update to significant accounting policies

As a result to the initial adoption of IFRS 15, as described above, the Company has updated its significant accounting policies as follows:

Revenue

The Company recognizes revenue when control of the goods or services has been transferred. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, including variable consideration to the extent that it is highly probable that a significant reversal will not occur.

Customer loyalty award programs

Revenue is allocated between the customer loyalty award programs and the goods on which the awards were earned based on their relative stand-alone selling prices. Loyalty points and awards granted under customer loyalty award programs are recorded as deferred revenue until the loyalty points and awards are redeemed by the customer.

Gift cards

Gift cards sold are recorded as deferred revenue and revenue is recognized when the gift cards are redeemed. If the Company expects to be entitled to a breakage amount for the gift cards, it recognizes the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer.

Sales with a Right of Return

The Company grants rights of return on goods sold to customers. Revenue is reduced by the amount of expected returns and a related refund liability is recorded within “Trade and other payables”. In addition, the Company recognizes a related asset for the right to recover returned goods within “Inventories”.

IFRS 2 – Share-based Payment

On June 20, 2016, the IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company adopted the amendments to IFRS 2 for the annual period beginning February 4, 2018. The adoption of these amendments did not have an impact on the Company’s unaudited condensed consolidated interim financial statements.

b) New Standards and Interpretations Not Yet Adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the 39 weeks ended November 3, 2018 and have not been applied in preparing these unaudited condensed consolidated interim financial statements. New standards and amendments to standards and interpretations that are currently under review include:

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), replacing IAS 17, Leases and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, has been adopted. The Company does not intend to early adopt IFRS 16.

During the year, the Company has continued to assess the impact of the standard on the Company’s business processes, internal controls over financial reporting, data systems, information technology and compensation arrangements. The Company has implemented a lease management system and continues to refine and validate the inputs and key assumptions used in its IFRS 16 calculation. Based on a preliminary assessment, the Company expects the adoption of IFRS 16 will have a significant impact on its consolidated financial statements, as the Company will recognize new assets and liabilities for its operating leases of retail stores, offices, automobiles and equipment. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of use assets and

interest expense on lease liabilities. On a go-forward basis, there will be a decrease in operating lease expense and an increase in depreciation and amortization and interest expense.

The Company intends to adopt this standard using the modified retrospective approach with the cumulative effects of initial application recorded in opening retained earnings as at February 3, 2019 with no restatements of the comparative period. IFRS 16 permits the use of practical expedients under the modified retrospective approach. The Company expects to disclose additional detailed information, including any practical expedients elected and estimated quantitative financial effects in its audited annual consolidated financial statements for the year ending February 2, 2019.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On February 7, 2018, the IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which they are first applied (earlier application is permitted).

The amendments to IAS 19 clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan.

The Company intends to adopt the amendments to IAS 19 in its financial statements for the annual period beginning on February 3, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held with banks bearing interest at variable rates.

5. INVENTORIES

During the 13 and 39 weeks ended November 3, 2018, inventories recognized as cost of goods sold amounted to \$100,125 and \$297,154, respectively (\$102,958 and \$303,975 for the 13 and 39 weeks ended October 28, 2017). In addition, for the 13 and 39 weeks ended November 3, 2018, the Company recorded \$3,143 and \$8,582, respectively, (\$3,510 and \$8,825 for the 13 and 39 weeks ended October 28, 2017) of write-downs of inventories as a result of net realizable value being lower than cost which were recognized in cost of goods sold, and no inventory write-downs recognized in previous periods were reversed.

Included in inventories is a return asset for the right to recover returned goods in the amount of \$1,904 as at November 3, 2018 (October 28, 2017 - \$1,638; February 3, 2018 - \$1,056).

6. GOODWILL

For the purpose of impairment testing, goodwill has been allocated to the group of cash-generating units (“CGUs”), being the Addition Elle banner.

Goodwill is tested for impairment annually as at the year-end reporting date or more frequently if events or changes in circumstances indicate that they may be impaired. No indications of impairment existed at November 3, 2018.

At October 28, 2017, the Company concluded that an interim impairment test was required due to the decline in profitability of the Addition Elle banner as compared to forecasts and prior periods. In assessing whether goodwill allocated to the Addition Elle banner was impaired, the carrying amount of this group of CGUs was compared to its recoverable amount. The recoverable amount is based on the higher of the value in use and fair value less costs to sell.

As at October 28, 2017, the recoverable amount of the Addition Elle banner CGU was based on value in use and was determined by discounting the future cash flows expected to be generated from the continuing use. Cash flow projections over a three year period were used along with a terminal value. Cash flows from fiscal 2019 to fiscal 2021 were projected based on past experience, actual operating results and budget projections with a sales growth rate of 3% in fiscal 2019, and 2% in fiscal 2020 and fiscal 2021. The terminal value was based on the long-term average growth rate for the industry which was estimated to be 2%. Projected cash flows were discounted using an after-tax discount rate of 14%. The discount rate was estimated based on a weighted average cost of capital (WACC) which was based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of the Company.

As a result of the test, the Company had recorded a goodwill impairment loss of \$26,340 in the 13 and 39 weeks ended October 28, 2017. Following the impairment loss recognised in the Addition Elle banner CGU, the recoverable amount was equal to the carrying amount.

7. TRADE AND OTHER PAYABLES

	<u>November 3, 2018</u>	<u>October 28, 2017 ⁽¹⁾</u>	<u>February 3, 2018 ⁽¹⁾</u>
Trade payables	\$ 76,749	\$ 75,921	\$ 68,044
Personnel liabilities	23,250	17,634	19,031
Other non-trade payables	8,151	14,536	1,398
Payables relating to premises	5,320	9,530	8,703
Refund liability	4,497	3,798	2,259
Onerous contracts ⁽²⁾	3,334	-	2,874
	<u>121,301</u>	<u>121,419</u>	<u>102,309</u>
Less non-current portion	6,891	6,024	8,598
	<u>\$ 114,410</u>	<u>\$ 115,395</u>	<u>\$ 93,711</u>

The non-current portion of trade and other payables includes the following amounts:

	November 3, 2018	October 28, 2017	February 3, 2018
Deferred rent and other payables relating to premises	\$ 5,098	\$ 6,024	\$ 5,724
Onerous contracts	1,632	-	2,874
Performance Share Units (note 10)	161	-	-
Total non-current portion of trade and other payables	<u>\$ 6,891</u>	<u>\$ 6,024</u>	<u>\$ 8,598</u>

(1) Certain comparative figures have been restated (note 3a)

(2) As a result of the decision to close its 17 Hyba stores by the end of the fiscal year ending February 2, 2019, the Company has recognized a provision for onerous leases related to these stores. For the 13 and 39 weeks ended November 3, 2018, the onerous contract provision (current and non-current) increased by \$812 and \$1,137, respectively, due to additional provisions and changes in the discounted amount, offset by a decrease of \$428 and \$677, respectively, due to amounts reversed during the period.

8. DEFERRED REVENUE

	November 3, 2018	October 28, 2017 ⁽¹⁾	February 3, 2018 ⁽¹⁾
Customer loyalty award programs	\$ 1,969	\$ 5,117	\$ 6,296
Unredeemed gift cards	8,205	8,057	13,698
	<u>\$ 10,174</u>	<u>\$ 13,174</u>	<u>\$ 19,994</u>

(1) Certain comparative figures have been restated (note 3a)

9. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

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

	39 weeks ended			
	November 3, 2018		October 28, 2017	
	Number of shares (in 000's)	Carrying amount	Number of shares (in 000's)	Carrying amount
Common shares				
Balance at beginning and end of the period	13,440	\$ 482	13,440	\$ 482
Class A non-voting shares				
Balance at beginning and end of the period	49,890	37,915	49,890	37,915
Total share capital	<u>63,330</u>	<u>\$ 38,397</u>	<u>63,330</u>	<u>\$ 38,397</u>

Authorized Share Capital

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

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

to receive Class A non-voting shares and the holders of Common shares shall have the right to receive Common shares.

Purchase of Shares for Cancellation

The Company did not purchase any shares under a normal course issuer bid approved in December 2017 in the 13 and 39 weeks ended November 3, 2018. For further information with respect to the normal course issuer bid refer to the Company's audited annual consolidated financial statements for the year ended February 3, 2018.

Accumulated Other Comprehensive Income ("AOCI")

AOCI is comprised of the following:

	Cash Flow Hedges	Foreign Currency Translation Differences	Total AOCI
Balance at February 4, 2018	\$ (4,923)	\$ (658)	\$ (5,581)
Net change in fair value of cash flow hedges (net of tax of \$773)	2,106	-	2,106
Transfer of realized loss on cash flow hedges to inventory (net of tax of \$1,804)	4,915	-	4,915
Change in foreign currency translation differences	-	(270)	(270)
Balance at November 3, 2018	<u>\$ 2,098</u>	<u>\$ (928)</u>	<u>\$ 1,170</u>
Balance at January 29, 2017	\$ (410)	\$ (917)	\$ (1,327)
Net change in fair value of cash flow hedges (net of tax of \$1,045)	(2,891)	-	(2,891)
Transfer of realized loss on cash flow hedges to inventory (net of tax of \$510)	1,411	-	1,411
Change in foreign currency translation differences	-	71	71
Balance at October 28, 2017	<u>\$ (1,890)</u>	<u>\$ (846)</u>	<u>\$ (2,736)</u>

Dividends

The following dividends were declared and paid by the Company:

	For the 13 weeks ended		For the 39 weeks ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Common shares and Class A non-voting shares	<u>\$ 3,167</u>	<u>\$ 3,167</u>	<u>\$ 9,501</u>	<u>\$ 9,501</u>
Dividend per share	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>

10. SHARE-BASED PAYMENTS

Share Option Plan

Under the share option plan, the Company can, at its sole discretion, grant share options and / or Share Appreciation Rights ("SARs"). The plan provides that up to 10% of the Class A non-voting shares outstanding, from time to time, may be issued pursuant to the exercise of options granted under the plan to key management and employees. The granting of options and the related vesting period, which is normally up to 4 years (up to 5 years for options granted before June 8, 2016), are at the

discretion of the Board of Directors and the options have a maximum term of up to 7 years (up to 10 years for options granted before June 8, 2016). The exercise price payable for each Class A non-voting share covered by a share option is determined by the Board of Directors at the date of grant, but may not be less than the closing price of the Company's shares on the trading day immediately preceding the effective date of the grant. The SARs entitle key management and employees to a cash payment based on the increase in the share price of the Company's Class A non-voting shares from the grant date to the vesting date. No SARs have been granted or are outstanding.

The changes in outstanding share options were as follows:

	For the 13 weeks ended				For the 39 weeks ended			
	November 3, 2018		October 28, 2017		November 3, 2018		October 28, 2017	
	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price
Outstanding, at beginning of period	2,071	\$ 7.91	2,911	\$ 7.78	2,401	\$ 7.81	3,843	\$ 9.27
Granted	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	-	-
Forfeited	(133)	5.78	(44)	5.89	(463)	6.79	(976)	13.57
Outstanding, at end of period	1,938	\$ 8.06	2,867	\$ 7.81	1,938	\$ 8.06	2,867	\$ 7.81
Options exercisable, at end of period	1,403	\$ 8.73	1,625	\$ 9.11	1,403	\$ 8.73	1,625	\$ 9.11

For the 13 and 39 weeks ended November 3, 2018, the Company recognized compensation costs of \$7 and \$45, respectively, relating to its share option plan (\$113 and \$392 for the 13 and 39 weeks ended October 28, 2017), with a corresponding change to contributed surplus.

Performance Share Units (cash-settled)

The Company has a performance share unit ("PSUs") plan for its executives and key management that entitles them to a cash payment. The PSUs vest based on non-market performance conditions measured over a three fiscal-year period ("performance period"). The number of PSUs that can vest can be up to 1.5 times the actual number of PSUs awarded if exceptional performance is achieved. Upon settlement of the vested PSUs, the cash payment will be equal to the number of PSUs multiplied by the fair value of the Common shares calculated using the volume weighted average trading price during the five trading days commencing five trading days subsequent to the release of the Company's financial results for the performance period.

On April 9, 2018, the Company granted 481,000 PSUs at a weighted average share price of \$4.06 (322,000 PSUs at a weighted average share price of \$5.09 for the 39 weeks ended October 28, 2017). PSUs vest in whole after the performance period upon meeting pre-determined non-market conditions.

The changes in outstanding PSUs were as follows:

	For the 13 weeks ended		For the 39 weeks ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
	PSUs (in 000's)	PSUs (in 000's)	PSUs (in 000's)	PSUs (in 000's)
Outstanding, at beginning of period	883	664	546	388
Granted	-	-	481	322
Forfeited	(81)	(25)	(225)	(71)
Outstanding, at end of period	802	639	802	639

As at November 3, 2018, based on a weighted average share price of \$3.91 for the five trading days preceding November 3, 2018, the Company recognized a share-based compensation expense related to PSUs of \$20 and \$117 in selling and distribution expenses and \$4 and \$44 in administrative expenses for the 13 and 39 weeks ended November 3, 2018, respectively (recovery of \$522 and \$349 in selling and distribution expenses and recovery of \$234 and \$166 in administrative expenses for the 13 and 39 weeks ended October 28, 2017, respectively) with a corresponding change in other non-current payables.

11. INCOME TAX

In the interim periods, the income tax provision is based on an estimate of the earnings that will be generated in a full year adjusted for the impact of the fair value adjustment related to marketable securities. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods.

12. FINANCE INCOME AND FINANCE COSTS

	For the 13 weeks ended		For the 39 weeks ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Dividend income from marketable securities	\$ 584	\$ 611	\$ 1,841	\$ 1,818
Interest income	602	350	1,449	752
Foreign exchange gain	-	976	1,830	577
Net change in fair value of marketable securities	-	2,089	-	5,276
Finance income	1,186	4,026	5,120	8,423
Interest expense - mortgage	-	8	-	47
Net change in fair value of marketable securities	2,627	-	3,692	-
Foreign exchange loss	194	-	-	-
Realized loss on disposal marketable securities	69	-	69	-
Finance costs	2,890	8	3,761	47
Net finance (costs) income recognized in net earnings (loss)	\$ (1,704)	\$ 4,018	\$ 1,359	\$ 8,376

13. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share is based on a net earnings for the 13 and 39 weeks ended November 3, 2018 of \$8,873 and \$15,692, respectively (net loss of \$16,852 and \$14,025 for the 13 and 39 weeks ended October 28, 2017).

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

	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>November 3, 2018</u>	<u>October 28, 2017</u>	<u>November 3, 2018</u>	<u>October 28, 2017</u>
Weighted average number of shares - basic	63,330	63,330	63,330	63,330
Weighted average number of shares - diluted	63,330	63,330	63,330	63,330

For the 13 and 39 weeks ended November 3, 2018 and October 28, 2017, respectively, all share options outstanding were excluded from the calculation of diluted earnings (loss) per share as these options were deemed to be anti-dilutive.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options is based on quoted market prices for the period during which the options were outstanding.

14. SUPPLEMENTARY CASH FLOW INFORMATION

	<u>November 3, 2018</u>	<u>October 28, 2017</u>	<u>February 3, 2018</u>
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	\$ 740	\$ 2,976	\$ 1,424

Included in depreciation, amortization and impairment losses are write-offs of property and equipment related to store closures and asset impairment charges relating to underperforming stores of \$246 and \$2,445 for the 13 and 39 weeks ended November 3, 2018, respectively (\$1,309 and \$3,156 for the 13 and 39 weeks ended October 28, 2017). The impairment related to the property and equipment is due to the reduction in profitability at individual store locations (cash-generating units "CGUs"). In addition, during the 13 and 39 weeks ended November 3, 2018, asset impairment charges of \$409 were reversed following an improvement in the profitability of certain CGU's (\$224 and \$496 for the 13 and 39 weeks ended October 28, 2017). Net impairment losses have been recorded in selling and distribution expenses.

For the 13 and 39 weeks ended October 28, 2017, the Company paid \$508 and \$1,502 in principal repayments and \$8 and \$47 in interest payments on its long-term debt, respectively.

15. FINANCIAL INSTRUMENTS

Accounting classification and fair values

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value. The Company has determined that the fair value of its current financial assets and liabilities (other than those included below) approximates their respective carrying amounts as at the reporting dates because of the short-term nature of those financial instruments.

	November 3, 2018						
	Carrying Amount				Fair Value		
	Fair Value through Profit or Loss	Fair Value of Hedging Instruments	Amortized Cost	Total	Level 1	Level 2	Total
Financial assets measured at fair value through profit or loss							
Derivative financial asset	\$ -	\$ 4,518	\$ -	\$ 4,518	\$ -	\$ 4,518	\$ 4,518
Marketable securities	\$ 58,233	-	\$ -	\$ 58,233	\$ 58,233	\$ -	\$ 58,233
	October 28, 2017						
	Carrying Amount				Fair Value		
	Fair Value through Profit or Loss	Fair Value of Hedging Instruments	Amortized Cost	Total	Level 1	Level 2	Total
Financial assets measured at fair value through profit or loss							
Derivative financial asset	\$ -	\$ 1,638	\$ -	\$ 1,638	\$ -	\$ 1,638	\$ 1,638
Marketable securities	\$ 60,040	\$ -	\$ -	\$ 60,040	\$ 60,040	\$ -	\$ 60,040
Financial liabilities measured at fair value through profit or loss							
Derivative financial liability	\$ -	\$ 5,521	\$ -	\$ 5,521	\$ -	\$ 5,521	\$ 5,521
Financial liabilities not measured at fair value through profit or loss							
Long-term debt	\$ -	\$ -	\$ 153	\$ 153	\$ -	\$ 153	\$ 153
	February 3, 2018						
	Carrying Amount				Fair Value		
	Fair Value through Profit or Loss	Fair Value of Hedging Instruments	Amortized Cost	Total	Level 1	Level 2	Total
Financial assets measured at fair value through profit or loss							
Derivative financial asset	\$ -	\$ 37	\$ -	\$ 37	\$ -	\$ 37	\$ 37
Marketable securities	\$ 62,025	\$ -	\$ -	\$ 62,025	\$ 62,025	\$ -	\$ 62,025
Financial liabilities measured at fair value through profit or loss							
Derivative financial liability	\$ -	\$ 9,745	\$ -	\$ 9,745	\$ -	\$ 9,745	\$ 9,745

There were no transfers between levels of the fair value hierarchy for the periods ended November 3, 2018, October 28, 2017 and February 3, 2018.

Derivative financial instruments

The Company entered into forward contracts with its bank on the U.S. dollar. These foreign exchange contracts extend over a period normally not exceeding twelve months.

Details of the foreign exchange forward contracts outstanding, all of which are designated as cash flow hedges are as follows:

	Average Strike Price	Notional Amount in U.S. Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
November 3, 2018	\$ 1.274	\$ 130,000	\$ 4,518	\$ -	\$ 4,518
October 28, 2017	\$ 1.303	\$ 199,500	\$ 1,638	\$ (5,521)	\$ (3,883)
February 3, 2018	\$ 1.286	\$ 204,500	\$ 37	\$ (9,745)	\$ (9,708)

16. FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the 13 and 39 weeks ended November 3, 2018 from those described in the Company's audited annual consolidated financial statements for the year ended February 3, 2018.