

# REITMANS

(CANADA) LIMITED

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

**For the 13 and 39 weeks ended November 2, 2019**

# REITMANS

(C A N A D A) L I M I T E D

## 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 2, 2019 and the audited annual consolidated financial statements for the fiscal year ended February 2, 2019 and the notes thereto which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com). This MD&A is dated December 4, 2019.

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 financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on December 4, 2019.

Unless otherwise indicated, all comparisons of results for the 13 weeks ended November 2, 2019 ("third quarter of 2020") are against results for the 13 weeks ended November 3, 2018 ("third quarter of 2019") and all comparisons of results for the 39 weeks ended November 2, 2019 ("year to date fiscal 2020") are against results for the 39 weeks ended November 3, 2018 ("year to date fiscal 2019"). As outlined in the "New Accounting Policies Adopted in Fiscal 2020" section of this MD&A, the Company adopted IFRS 16 – *Leases*, using the modified retrospective approach, effective for the annual reporting period beginning on February 3, 2019. Accordingly, comparative figures as at and for the year ended February 2, 2019, for the third quarter of 2019, and for the year to date fiscal 2019, have not been restated and continue to be reported under IAS 17 – *Leases*. For analysis purposes only, this MD&A also shows, where applicable, amounts for the third quarter of 2020 and year to date fiscal 2020 as if the Company continued to report under IAS 17 – *Leases*, and did not adopt IFRS 16.

Additional information about Reitmans is available on the Company's website at [www.reitmanscanadalimited.com](http://www.reitmanscanadalimited.com) or on the SEDAR website at [www.sedar.com](http://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 belief in its strategies and its brands and their capacity to generate long-term profitable growth, 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 Risk Management" and "Financial Risk Management" sections 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 gains or losses 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 and the net change in fair value of marketable securities eliminates the impact on earnings derived from non-operational activities. The exclusion of 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. Given that the Company has recorded a goodwill impairment in the third quarter of and year to date fiscal 2020, it has also determined that a useful measure would be results from operating activities before impairment of goodwill, as noted on pages 7 and 10 of this MD&A. Additionally, (loss) 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 (loss) 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”), comparable sales, to assess store performance and sales growth. The Company engages in an omnichannel approach in connecting with its customers by appealing to their shopping habits through either online or store channels. This approach allows customers to shop online for home delivery, purchase in any of our store locations or ship to home from another store when the products are unavailable in a particular store. Due to customer cross-channel behaviour, the Company reports a single comparable sales metric, inclusive of store and e-commerce channels. Comparable 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. Comparable sales exclude sales from wholesale accounts. The comparable 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 comparable sales in evaluating the performance of stores and online sales 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. Comparable sales is a measure widely used amongst retailers and is considered useful information for both investors and analysts. Comparable 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 (loss) earnings to adjusted EBITDA:

	For the third quarter of			Year to date fiscal		
	2020	2020 Excluding impact of IFRS 16 <sup>(1)</sup>	2019	2020	2020 Excluding impact of IFRS 16 <sup>(1)</sup>	2019
<b>Net (loss) earnings</b>	<b>\$ (23.1)</b>	<b>\$ (22.5)</b>	<b>\$ 8.9</b>	<b>\$ (35.8)</b>	<b>\$ (32.9)</b>	<b>\$ 15.7</b>
Depreciation, amortization and net impairment losses	25.9	8.5	8.5	78.4	25.5	28.8
Dividend income	(0.1)	(0.1)	(0.5)	(1.4)	(1.4)	(1.8)
Interest income	(0.4)	(0.4)	(0.7)	(1.3)	(1.3)	(1.5)
Impairment of goodwill	11.8	11.8	-	11.8	11.8	-
Net change in fair value and loss on disposal of marketable securities	4.4	4.4	2.7	8.3	8.3	3.8
Interest expense on lease liabilities	1.8	-	-	5.7	-	-
Income tax (recovery) expense	(1.8)	(1.6)	3.5	(6.3)	(5.3)	5.7
<b>Adjusted EBITDA</b>	<b>\$ 18.5</b>	<b>\$ 0.1</b>	<b>\$ 22.4</b>	<b>\$ 59.4</b>	<b>\$ 4.7</b>	<b>\$ 50.7</b>
<b>Adjusted EBITDA as % of Sales</b>	<b>8.3%</b>	<b>0.0%</b>	<b>9.3%</b>	<b>9.3%</b>	<b>0.7%</b>	<b>7.3%</b>

<sup>1</sup> Adjusted EBITDA for the third quarter of 2020 and year to date fiscal 2020 excluding impact of IFRS 16 assumes the Company continued to report under IAS 17 – Leases and did not adopt IFRS 16. Under IFRS 16, the nature and timing of expenses related to operating leases have changed as the straight-line operating lease expenses have been replaced with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Accordingly, IFRS 16 had a favourable impact of approximately \$18.4 million and \$54.7 million on adjusted EBITDA for the third quarter of 2020 and for year to date fiscal 2020, respectively, as operating lease expenses have been replaced with depreciation and interest expenses, which are not included in the calculation of adjusted EBITDA.

## OVERVIEW

The Company has a single reportable segment that derives its revenue primarily from the sale of ladies' specialty apparel to consumers through its 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 chains and a 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 12–32. 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 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.

## RETAIL BANNERS

	Number of stores at February 2, 2019	Q1 Closings	Q2 Closings	Q3 Openings	Q3 Closings	Number of stores at November 2, 2019	Number of stores at November 3, 2018
Reitmans	263	(4)	(1)	3	(1)	260	265
Penningtons	115	-	(1)	-	(2)	112	118
Addition Elle	81	(1)	-	-	(1)	79	83
RW & CO.	83	(1)	(1)	-	-	81	83
Thyme Maternity	58	-	-	-	(3)	55	61
Hyba	-	-	-	-	-	-	14
<b>Total</b>	<b>600</b>	<b>(6)</b>	<b>(3)</b>	<b>3</b>	<b>(7)</b>	<b>587</b>	<b>624</b>

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

## STRATEGIC INITIATIVES

The Company 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>With the current quarter's poor operating results of its plus-size banners, the Company re-organized its plus-size leadership team in the third quarter of 2020.</p>	<p>The new leadership team is reviewing all strategic aspects of the plus-size banners to ensure corrective action is taken to improve operating results.</p>
<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 completed the deployment of its retail system upgrades and distribution and handling systems, and this initiative was operational for all its banners in the first half of fiscal 2020.</p> <p>The Company continues to build on this initiative to optimally fulfill its online and in-store orders and minimize split shipments. The availability of inventory across all channels was completed in the third quarter of fiscal 2020, while system and process improvements aimed at minimizing split shipments is now targeted to be completed by the end the fourth quarter of fiscal 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 omnichannel 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.</p> <p>The Company has re-designed its current online shopping site for an enhanced mobile-friendly customer experience for the Addition Elle banner. This initiative is being deployed in a phased approach with the remaining banners targeted from early to mid-fiscal 2021.</p>
<p>The Company will replace its current point-of-sale system ("POS") in all stores.</p>	<p>During the third quarter of fiscal 2020, the Company completed its vendor selection for this initiative. The Company anticipates the rollout of its new POS in fiscal 2021.</p>

## OPERATING RESULTS FOR THE THIRD QUARTER OF 2020 COMPARED TO THE THIRD QUARTER OF 2019

The poor results from operating activities for the third quarter of 2020 are primarily attributed to the disappointing results from the plus-size banners. Strategic brand initiatives implemented early in the fiscal year failed to resonate with their customer base. Although a variety of corrective measures were implemented to improve profitability, the implementation of these new corrective strategies occurred late in the third quarter of 2020 and did not have a positive impact on the operating results.

### Excluding Impact of IFRS 16<sup>(1)</sup>

	Third quarter of 2020	Third quarter of 2019	\$ Change	% Change	Third quarter of 2020	Third quarter of 2019	\$ Change	% Change
Sales	\$ 222.3	\$ 239.7	\$ (17.4)	(7.3%)	\$ 222.3	\$ 239.7	\$ (17.4)	(7.3%)
Cost of goods sold	106.4	103.3	3.1	3.0%	106.4	103.3	3.1	3.0%
Gross profit	115.9	136.4	(20.5)	(15.0%)	115.9	136.4	(20.5)	(15.0%)
Gross profit %	52.1%	56.9%			52.1%	56.9%		
Selling, distribution and administrative expenses	123.2	122.3	0.9	0.7%	124.2	122.3	1.9	1.6%
Results from operating activities before impairment of goodwill	(7.3)	14.1	(21.4)		(8.3)	14.1	(22.4)	
Impairment of goodwill	11.8	-	11.8		11.8	-	11.8	
Results from operating activities	(19.1)	14.1	(33.2)		(20.1)	14.1	(34.2)	
Net finance (costs) income	(5.8)	(1.7)	(4.1)		(4.0)	(1.7)	(2.3)	
(Loss) earnings before income taxes	(24.9)	12.4	(37.3)		(24.1)	12.4	(36.5)	
Income tax (recovery) expense	(1.8)	3.5	(5.3)		(1.6)	3.5	(5.1)	
Net (loss) earnings	\$ (23.1)	\$ 8.9	\$ (32.0)		\$ (22.5)	\$ 8.9	\$ (31.4)	
Adjusted EBITDA	\$ 18.5	\$ 22.4	\$ (3.9)	(17.4%)	\$ 0.1	\$ 22.4	\$ (22.3)	(99.6%)
(Loss) earnings per share:								
Basic	\$ (0.47)	\$ 0.14	\$ (0.61)		\$ (0.46)	\$ 0.14	\$ (0.60)	
Diluted	(0.47)	0.14	(0.61)		(0.46)	0.14	(0.60)	
(Loss) earnings per share excluding impairment of goodwill:								
Basic	\$ (0.23)	\$ 0.14	\$ (0.37)		\$ (0.22)	\$ 0.14	\$ (0.36)	
Diluted	(0.23)	0.14	(0.37)		(0.22)	0.14	(0.36)	

<sup>1</sup> Excluding impact of IFRS 16 assumes the Company continued to report under IAS 17 – Leases, in the third quarter of 2020 and did not adopt IFRS 16.

### Sales

Sales for the third quarter of 2020 decreased by \$17.4 million, or 7.3%, to \$222.3 million, primarily due to lower sales in the plus-size banners, and a net reduction of 37 stores. The Company continues to execute on its plan of adapting to the new retail environment by reducing its store presence in select markets while enhancing its e-commerce capabilities.

Comparable sales, which include e-commerce sales, decreased 2.8%. The decrease was primarily due to store traffic being down 0.7%, and customers' overall transaction value being down 5.9% for the third quarter of 2020. The Company continues to experience strong growth through its online channel.

### **Gross Profit**

Gross profit for the third quarter of 2020 decreased \$20.5 million or 15.0%, to \$115.9 million as compared with \$136.4 million for the third quarter of 2019, primarily attributable to lower sales and a net reduction of 37 stores. Gross profit as a percentage of sales for the third quarter of 2020 decreased to 52.1% from 56.9% for the third quarter of 2019 primarily due to increased promotional activity, particularly in the plus-size banners, along with a negative foreign exchange impact of approximately \$2.2 million on U.S. dollar denominated purchases included in cost of goods sold.

### **Selling, Distribution and Administrative Expenses**

Total selling, distribution and administrative expenses for the third quarter of 2020 increased 0.7%, or \$0.9 million to \$123.2 million. The increase is primarily attributable to increases in advertising, freight and software costs, partially offset by reductions in store operating costs due to fewer stores.

Total selling, distribution and administrative expenses for the third quarter of 2020, excluding the impact of IFRS 16, amounted to \$124.2 million. IFRS 16 had a favourable impact of \$1.0 million, as depreciation expense related to the right-of-use assets is lower than the previous operating lease expenses under IAS 17.

### **Impairment of Goodwill**

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 (refer to Note 6 of the November 2, 2019 unaudited condensed consolidated interim financial statements). As a result, the Company recorded a goodwill impairment loss of \$11.8 million in the third quarter of fiscal 2020.

### **Net Finance Costs**

Net finance costs were \$5.8 million for the third quarter of 2020 as compared to net finance costs of \$1.7 million for the third quarter of 2019. This change of \$4.1 million is primarily attributable to a \$4.4 million loss on the disposal of the marketable securities portfolio in the third quarter of 2020, a \$0.7 million reduction in interest and dividend income and an increase of \$1.8 million in interest expense on lease liabilities due to the impact of the adoption of IFRS 16. This increase in net finance costs was partially offset by the absence of any mark-to-market gain or loss in the third quarter of 2020 as the marketable securities portfolio was disposed of, compared to a \$2.7 million expense recognized in the third quarter of 2019 due to a decrease in the fair value of the marketable securities.

Excluding the \$1.8 million increase in interest expense due to the impact of IFRS 16, net finance costs were \$4.0 million for the third quarter of 2020 as compared to net finance costs of \$1.7 million for the third quarter of 2019.

### **Income Taxes**

The income tax recovery recognized for the third quarter of 2020 due to the losses incurred was impacted primarily by a non-deductible goodwill impairment of \$11.8 million, a \$4.4 million loss on the sale 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 tax jurisdictions in Canada.

**Net Loss**

Net loss for the third quarter of 2020 was \$23.1 million (\$0.47 basic and diluted loss per share) as compared with \$8.9 million net earnings (\$0.14 basic and diluted earnings per share) for the third quarter of 2019. This unfavourable change of \$32.0 million included an unfavourable impact of IFRS 16 of \$0.6 million. Excluding this \$0.6 million impact of IFRS 16, the deterioration in net earnings of \$31.4 million is primarily attributable to lower sales, the decrease in gross profit, a goodwill impairment expense of \$11.8 million and the increase in net finance costs, partially offset by an increase in income tax recovery.

Excluding the impact of the impairment of goodwill, the net loss for the third quarter of 2020 was \$11.3 million (\$0.23 basic and diluted loss per share) as compared with net earnings of \$8.9 million (\$0.14 basic and diluted earnings per share) for the third quarter of 2019.

**Adjusted EBITDA**

Adjusted EBITDA for the third quarter of 2020 was \$18.5 million as compared with \$22.4 million for the third quarter of 2019, a decrease of \$3.9 million. The decrease in adjusted EBITDA includes a favourable impact from the adoption of IFRS 16 of \$18.4 million. Excluding this \$18.4 million impact of IFRS 16, adjusted EBITDA for the third quarter of 2020 was \$0.1 million as compared with \$22.4 million for the third quarter of 2019, a decrease of \$22.3 million. The decrease is primarily attributable to the decrease in gross profit, as noted above.

## OPERATING RESULTS FOR THE YEAR TO DATE FISCAL 2020 COMPARED TO THE YEAR TO DATE FISCAL 2019

The poor results from operating activities for the year to date fiscal 2020 are primarily attributed to the disappointing results from the plus-size banners. Strategic brand initiatives implemented early in the fiscal year failed to resonate with their customer base. Although a variety of corrective measures were implemented to improve profitability, the implementation of these corrective strategies occurred late in the year to date fiscal 2020 and were not expected to, and did not, have a positive impact on the operating results for the year to date fiscal 2020.

### Excluding Impact of IFRS 16<sup>(1)</sup>

	Year to Date Fiscal 2020	Year to Date Fiscal 2019	\$ Change	% Change	Year to Date Fiscal 2020	Year to Date Fiscal 2019	\$ Change	% Change
Sales	\$ 640.3	\$ 696.1	\$ (55.8)	(8.0%)	\$ 640.3	\$ 696.1	\$ (55.8)	(8.0%)
Cost of goods sold	299.9	305.7	(5.8)	(1.9%)	299.9	305.7	(5.8)	(1.9%)
Gross profit	340.4	390.4	(50.0)	(12.8%)	340.4	390.4	(50.0)	(12.8%)
Gross profit %	53.2%	56.1%			53.2%	56.1%		
Selling, distribution and administrative expenses	359.0	370.3	(11.3)	(3.1%)	360.8	370.3	(9.5)	(2.6%)
Results from operating activities before impairment of goodwill	(18.6)	20.1	(38.7)		(20.4)	20.1	(40.5)	
Impairment of goodwill	11.8	-	11.8		11.8	-	11.8	
Results from operating activities	(30.4)	20.1	(50.5)		(32.2)	20.1	(52.3)	
Net finance (costs) income	(11.7)	1.3	(13.0)		(6.0)	1.3	(7.3)	
(Loss) earnings before income taxes	(42.1)	21.4	(63.5)		(38.2)	21.4	(59.6)	
Income tax (recovery) expense	(6.3)	5.7	(12.0)		(5.3)	5.7	(11.0)	
Net (loss) earnings	\$ (35.8)	\$ 15.7	\$ (51.5)		\$ (32.9)	\$ 15.7	\$ (48.6)	
Adjusted EBITDA	\$ 59.4	\$ 50.7	\$ 8.7	17.2%	\$ 4.7	\$ 50.7	\$ (46.0)	(90.7%)
(Loss) earnings per share:								
Basic	\$ (0.61)	\$ 0.25	\$ (0.86)		\$ (0.56)	\$ 0.25	\$ (0.81)	
Diluted	(0.61)	0.25	(0.86)		(0.56)	0.25	(0.81)	
(Loss) earnings per share excluding impairment of goodwill:								
Basic	\$ (0.41)	\$ 0.25	\$ (0.66)		\$ (0.36)	\$ 0.25	\$ (0.61)	
Diluted	(0.41)	0.25	(0.66)		(0.36)	0.25	(0.61)	

<sup>1</sup> Excluding impact of IFRS 16 assumes the Company continued to report under IAS 17 – Leases, in the year to date fiscal 2020 and did not adopt IFRS 16.

## **Sales**

Sales for the year to date fiscal 2020 decreased by \$55.8 million, or 8.0%, to \$640.3 million, primarily due to lower sales in the plus-size banners, a net reduction of 37 stores and unseasonable weather conditions that were prevalent during the earlier portion of year to date fiscal 2020. The Company continues to execute on its plan of adapting to the new retail environment by reducing its store presence in select markets while enhancing its e-commerce capabilities.

Comparable sales, which include e-commerce sales, decreased 3.3%. The decrease was primarily due to store traffic being down 3.0% for the year to date fiscal 2020. The Company continues to experience strong growth through its online channel.

## **Gross Profit**

Gross profit for the year to date fiscal 2020 decreased \$50.0 million or 12.8%, to \$340.4 million as compared with \$390.4 million for the year to date fiscal 2019, primarily attributable to lower sales and a net reduction of 37 stores. Gross profit as a percentage of sales for the year to date fiscal 2020 decreased to 53.2% from 56.1% for the year to date fiscal 2019 primarily due to increased promotional activity, despite a positive foreign exchange impact on U.S. dollar denominated purchases included in cost of goods sold.

## **Selling, Distribution and Administrative Expenses**

Total selling, distribution and administrative expenses for the year to date fiscal 2020 decreased 3.1%, or \$11.3 million to \$359.0 million. The decrease is primarily attributable to a reduction in store operating costs due to fewer stores, lower non-IFRS 16 related depreciation, amortization and net impairment losses on property and equipment and intangible assets (i.e. excluding depreciation and net impairment losses on right-of-use assets) and decreases in employee performance incentive plan and termination costs, partially offset by increases in advertising and freight costs.

Total selling, distribution and administrative expenses for the year to date fiscal 2020, excluding the impact of IFRS 16, would have been \$360.8 million. IFRS 16 had a favourable impact of \$1.8 million, as depreciation expense related to the right-of-use assets is lower than the previous operating lease expenses under IAS 17.

## **Impairment of Goodwill**

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 (refer to Note 6 of the November 2, 2019 unaudited condensed consolidated interim financial statements). As a result, the Company recorded a goodwill impairment loss of \$11.8 million in the year to date fiscal 2020.

## **Net Finance Costs**

Net finance costs were \$11.7 million for the year to date fiscal 2020 as compared to a net finance income of \$1.3 million for the year to date fiscal 2019. This change is primarily attributable to the following:

- an increase of \$5.7 million in interest expense on lease liabilities due to the impact of the adoption of IFRS 16;
- a foreign exchange loss of \$0.5 million for the year to date fiscal 2020 compared to a gain of \$1.8 million for the year to date fiscal 2019, largely attributable to the foreign exchange impact on U.S. denominated monetary assets and liabilities;

- a \$4.5 million increase in finance costs due to the \$8.3 million net change in fair value and loss on disposal of marketable securities for the year to date fiscal 2020 compared to the \$3.8 million net change in fair value and loss on disposal of marketable securities for the year to date fiscal 2019;
- a \$0.4 million decrease in dividend income due to the complete disposition of the marketable securities portfolio.

Excluding the \$5.7 million increase in interest expense due to the impact of IFRS 16, net finance costs were \$6.0 million for the year to date fiscal 2020 as compared to an income of \$1.3 million for the year to date fiscal 2019.

### ***Income Taxes***

The income tax recovery recognized for the year to date fiscal 2020 due to the losses incurred was impacted primarily by a non-deductible goodwill impairment of \$11.8 million, \$8.3 million of losses on 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 tax jurisdictions in Canada.

### ***Net Loss***

Net loss for the year to date fiscal 2020 was \$35.8 million (\$0.61 basic and diluted loss per share) as compared with \$15.7 million net earnings (\$0.25 basic and diluted earnings per share) for the year to date fiscal 2019. The unfavourable change of \$51.5 million included an unfavourable impact of IFRS 16 of \$2.9 million. Excluding this \$2.9 million impact of IFRS 16, the deterioration in net earnings of \$48.6 million is primarily attributable to lower sales, the decrease in gross profit, a goodwill impairment expense of \$11.8 million and the increase in net finance costs, partially offset by reduced store operating costs and an increase in income tax recovery.

Excluding the impact of the impairment of goodwill, the net loss for the year to date fiscal 2020 was \$24.0 million (\$0.41 basic and diluted loss per share) as compared with net earnings of \$15.7 million (\$0.25 basic and diluted earnings per share) for the year to date fiscal 2019.

### ***Adjusted EBITDA***

Adjusted EBITDA for the year to date fiscal 2020 was \$59.4 million as compared with \$50.7 million for the year to date fiscal 2019, an increase of \$8.7 million. The increase in adjusted EBITDA includes a favourable impact from the adoption of IFRS 16 of \$54.7 million. Excluding this \$54.7 million impact of IFRS 16, adjusted EBITDA for the year to date fiscal 2020 was \$4.7 million as compared with \$50.7 million for the year to date fiscal 2019, a decrease of \$46.0 million. The decrease is primarily attributable to the decrease in gross profit, 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 hedge contracts, with any additional requirements being met through spot U.S. dollar purchases. In the year to date fiscal 2020, merchandise purchases, payable in U.S. dollars, approximated \$192.1 million U.S.

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
<b>November 2, 2019</b>	<b>\$ 1.319</b>	<b>\$ 165.0</b>	<b>\$ 0.2</b>	<b>\$ (1.0)</b>	<b>\$ (0.8)</b>
November 3, 2018	\$ 1.274	\$ 130.0	\$ 4.5	\$ -	\$ 4.5
February 2, 2019	\$ 1.299	\$ 155.0	\$ 1.9	\$ (1.0)	\$ 0.9

## 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 "2020" are to the Company's fiscal year ending February 1, 2020, "2019" are to the Company's fiscal year ended February 2, 2019 and "2018" are to the Company's fiscal year ended February 3, 2018.

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2020 <sup>1</sup> (13 weeks)	2019 (13 weeks)	2020 <sup>1</sup> (13 weeks)	2019 (13 weeks)	2020 <sup>1</sup> (13 weeks)	2019 (13 weeks)	2019 (13 weeks)	2018 (14 weeks)
Sales	\$ 222.3	\$ 239.7	\$ 232.8	\$ 248.8	\$ 185.2	\$ 207.6	\$ 226.9	\$ 264.2
Net (loss) earnings (Loss) earnings per share	(23.1) <sup>2</sup>	8.9	(0.1)	10.0	(12.6)	(3.2)	(8.9)	(2.0)
Basic	\$ (0.47) <sup>2</sup>	\$ 0.14	\$ (0.00)	\$ 0.16	\$ (0.20)	\$ (0.05)	\$ (0.14)	\$ (0.03)
Diluted	(0.47) <sup>2</sup>	0.14	(0.00)	0.16	(0.20)	(0.05)	(0.14)	(0.03)
Net (loss) earnings before impairment of goodwill	\$ (11.3)	\$ 8.9	\$ (0.1)	\$ 10.0	\$ (12.6)	\$ (3.2)	\$ (8.9)	\$ (2.0)
(Loss) earnings per share excluding impairment of goodwill								
Basic	\$ (0.23)	\$ 0.14	\$ (0.00)	\$ 0.16	\$ (0.20)	\$ (0.05)	\$ (0.14)	\$ (0.03)
Diluted	(0.23)	0.14	(0.00)	0.16	(0.20)	(0.05)	(0.14)	(0.03)

<sup>1</sup> Includes the impact of the adoption of IFRS 16.

<sup>2</sup> Includes the impact of an impairment of goodwill of \$11.8 million related to the Addition Elle banner.

## BALANCE SHEET

Selected line items from the Company's balance sheets as at November 2, 2019 and February 2, 2019 are presented below:

	<b>November 2, 2019</b>	<b>February 2, 2019</b>	<b>\$ Change</b>	<b>% Change</b>
Cash and cash equivalents	\$ 67.3	\$ 112.5	\$ (45.2)	(40.2%)
Marketable securities	-	49.7	(49.7)	(100.0%)
Inventories	175.3	146.8	28.5	19.4%
Prepaid expenses	15.2	19.8	(4.6)	(23.2%)
Property and equipment & intangible assets	109.0	117.6	(8.6)	(7.3%)
Right-of-use assets	193.8	-	193.8	-
Goodwill	-	11.8	(11.8)	(100.0%)
Deferred income taxes	30.6	24.8	5.8	23.4%
Trade and other payables (current and non-current)	111.3	104.0	7.3	7.0%
Income taxes payable	0.3	4.2	(3.9)	(92.9%)
Net derivative financial (liability) asset	(0.8)	0.9	(1.7)	-
Deferred revenue	10.3	15.2	(4.9)	(32.2%)
Deferred lease credits	-	7.8	(7.8)	(100.0%)
Lease liabilities (current and non-current)	203.2	-	203.2	-
Share capital	27.4	38.4	(11.0)	(28.6%)

Changes at November 2, 2019 as compared to February 2, 2019 were primarily due to the following:

- cash and cash equivalents decreased \$45.2 million due to reduction of cash generated from operations primarily from weaker sales performance, significant payments pursuant to the substantial issuer bid, investments made in property and equipment and dividend payments, partially offset by the receipt of proceeds of \$41.4 million from the disposal of the marketable securities portfolio in the year to date fiscal 2020;
- marketable securities decreased due to the Company disposing of its marketable securities portfolio;
- inventories increased primarily in the Company's plus-size banners due to sales of fall merchandise not meeting expectations;
- prepaid expenses are typically comprised of prepaid maintenance contracts and realty and business taxes. The decrease is primarily due to lease payments of approximately \$6.2 million previously recognized as prepaid expenses under IAS 17, which were applied to right-of-use assets under IFRS 16 at February 3, 2019 (see note 3 of the unaudited condensed consolidated interim financial statements for the third quarter of 2020 for additional details), partially offset by an increase in prepaid software contracts;
- 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 2020, \$17.4 million was invested mainly in digital technology and retail system upgrades, distribution and handling system improvements and existing store renovations. Depreciation, amortization and net impairment losses of \$25.5 million were recognized in the year to date fiscal 2020 on property and equipment & intangible assets (i.e. excluding right-of-use assets);
- right-of-use assets of \$210.9 million were recognized with the adoption of IFRS 16 as at February 3, 2019 and mainly represent the right to use the Company's retail stores and certain equipment over their lease terms. Right-of-use assets further increased by \$35.8 million due to lease additions during the year to date fiscal 2020 offset by depreciation, amortization and net impairment losses on right-of-use assets of \$52.9 million recognized in the year to date fiscal 2020;
- the reduction of goodwill is attributable to the recognition of an impairment of goodwill of \$11.8 million;

- deferred income taxes arise primarily due to deductible temporary timing differences on property and equipment and intangible assets and pension liability;
- trade and other payables, which consist largely of trade payables, personnel liabilities and sales tax liabilities, increased primarily due to timing of payments. Trade and other payables were impacted by approximately \$6.5 million arising from deferred rent liabilities and provisions for onerous contracts previously recognized as trade and other payables under IAS 17, which were applied against right-of-use assets under IFRS 16 at February 3, 2019 (see note 3 of the unaudited condensed consolidated interim financial statements for the third quarter of 2020 for additional details);
- income taxes payable decreased primarily due to payments made to tax authorities for prior year amounts owed;
- the change in the net derivative financial liability is attributable to the impact of mark-to-market adjustments on foreign exchange forward contracts outstanding at the end of the third quarter of 2020;
- 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 programs. Revenue is recognized when the gift cards, loyalty points and awards are redeemed;
- deferred lease credits were applied against right-of-use assets under IFRS 16 at February 3, 2019 (see note 3 of the unaudited condensed consolidated interim financial statements for the third quarter of 2020 for additional details);
- lease liabilities of \$218.5 million were recognized with the adoption of IFRS 16 as at February 3, 2019 and represent the present value of the Company's obligations to make lease payments for its store and equipment leases (see note 3 of the unaudited condensed consolidated interim financial statements for the third quarter of 2020 for additional details). In the year to date fiscal 2020, lease liabilities further increased by lease additions of \$35.8 million and interest expense of \$5.7 million, offset by lease payments of \$56.8 million.
- share capital decreased by \$11.0 million as the Company entered into a substantial issuer bid and purchased 14.5 million Class A non-voting shares for an aggregate consideration of \$43.7 million, with the excess of \$32.7 million being recognized as a reduction to retained earnings in the year to date fiscal 2020.

## 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 2, 2019 (which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)).

There have been no significant changes in the Company's operating and financial risk exposures during the year to date fiscal 2020, aside from the removal of any credit and equity risk associated with the marketable securities portfolio, which has been disposed of.

## LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company primarily uses funds for working capital requirements and capital expenditures. Shareholders' equity as at November 2, 2019 amounted to \$251.9 million or \$4.31 per share (November 3, 2018 - \$355.0 million or \$5.61 per share; February 2, 2019 - \$339.6 million or \$5.36 per share). The Company has significant cash reserves and no long-term financing debt (other than its lease liabilities). The Company's principal sources of liquidity are its cash and cash equivalents of \$67.3 million as at November 2, 2019 (November 3, 2018 - \$124.7 million; February 2, 2019 - \$112.5 million). Cash is held in interest bearing accounts with major Canadian financial institutions. The Company closely monitors its risk with respect to cash investments. As at November 2, 2019, the Company had unsecured borrowing and working capital credit facilities available up to an amount of \$75.0 million or its U.S. dollar equivalent of which \$2.9 million (November 3, 2018 - \$4.4 million; February 2, 2019 - \$4.2 million) of the operating lines of credit were committed for documentary and standby letters of credit. Subsequent to November 2, 2019, the Company reduced its unsecured borrowing and working capital credit facilities to \$65.0 million or its US dollar equivalent. These credit facilities are used principally to support U.S. dollar foreign exchange forward contract purchases and for U.S. dollar letters of credit to satisfy international third-party vendors which require such backing before confirming purchase orders issued by the Company. The Company rarely uses such credit facilities for other purposes.

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.

The Company paid \$0.05 dividends per share in the third quarter of 2020 totalling \$2.4 million, compared to \$3.2 million the third quarter of 2019. 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. 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 and on December 4, 2019, due to the Company's current operating performance, the Board of Directors decided to suspend the quarterly dividend. The Company will continue to assess potential future dividend levels on a quarterly basis.

In the third quarter of 2020, the Company invested \$5.3 million in capital expenditures on a cash basis, primarily in existing store renovations and digital technology and retail system upgrades, distribution and handling system improvements and new store builds. In the year to date fiscal 2020, the Company invested \$17.4 million in capital expenditures on a cash basis, primarily in digital technology and retail system upgrades, distribution and handling system improvements and existing store renovations and new store builds. In fiscal 2020, the Company expects to invest approximately \$27.0 million in capital expenditures, to be funded by the Company's existing financial resources and funds derived from its operations.

The Company expects that cash and cash equivalents, future operating cash flows and amounts available to be drawn under 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 2, 2019.

## OUTSTANDING SHARE DATA

On June 17, 2019, the Company announced the terms of a substantial issuer bid (the "Offer") to purchase for cancellation up to 15,000,000 of its issued and outstanding Class A non-voting shares at a price of \$3.00 per share. The Offer commenced on June 20, 2019 and expired on July 26, 2019. The Offer resulted in the Company purchasing 14,462,944 Class A non-voting shares, which were subsequently cancelled, for an aggregate consideration of \$43.7 million including related transaction costs of \$0.3 million.

At December 4, 2019, 13,440,000 Common shares and 35,427,322 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 1,780,000 share options outstanding at an average exercise price of \$8.18. 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.

## 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 currency forward hedge contracts with maturities generally not exceeding twelve months.

Details of the foreign currency contracts outstanding as at November 2, 2019, November 3, 2018 and February 2, 2019 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 chartered banks. 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 2, 2019.

## FINANCIAL INSTRUMENTS

The Company is liquid with significant cash and cash equivalents. The Company uses its cash resources to fund ongoing capital expenditures along with working capital needs. Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, trade and other receivables and foreign currency 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.

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 MD&A for the year ended February 2, 2019 (which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)), except as disclosed in Note 2 e) of the unaudited condensed consolidated interim financial statements for the year to date fiscal 2020.

### NEW ACCOUNTING POLICIES ADOPTED IN FISCAL 2020

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 2020:

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

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 2020.

### 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.

As reported previously, the Company has selected a lease accounting software to gather its lease information and to quantify the required components of IFRS 16. The Company finalized the process of implementing this lease accounting software and finalized the development of new reports to capture information required for presentation and disclosure under IFRS 16 during the year to date fiscal 2020. Accordingly, internal controls processes and procedures have been put in place and updated in order to ensure proper internal controls over financial reporting, and disclosure controls and procedures have been updated to capture information required for presentation and disclosure under IFRS 16.

There were no other changes in the Company's internal control over financial reporting during the year to date fiscal 2020 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## OUTLOOK

The disappointing operating results in fiscal 2020 are primarily attributed to the Company's plus-size banners. Sales and the operating results from the plus-size banners were well below expectations as the strategic initiatives implemented early in the fiscal year in these banners failed to resonate with their customer base. A variety of measures were implemented late in the third quarter of 2020 to improve profitability, including new leadership focused on enhancing the product offerings and improving the customer experience both in stores and online to meet customer demands. As changes continue to be implemented, the positive impact of these initiatives is expected to benefit fiscal 2021. While the immediate focus is to improve sales and operating performance in the plus-size banners, 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 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 Company is optimistic that it has a strong team in place to drive growth and execute on its strategy. The Company continues to believe that it has premium brands with excellent digital capabilities, highly recognizable celebrity collaborations and strategies in place with the potential to generate long-term profitable growth. 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.

**REITMANS (CANADA) LIMITED**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS**

(Unaudited)

(in thousands of Canadian dollars except per share amounts)

	Notes	For the 13 weeks ended		For the 39 weeks ended	
		November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Sales		\$ 222,336	\$ 239,713	\$ 640,309	\$ 696,131
Cost of goods sold	5	106,444	103,268	299,949	305,736
Gross profit		115,892	136,445	340,360	390,395
Selling and distribution expenses		111,607	111,170	324,824	336,650
Administrative expenses		11,617	11,177	34,067	33,709
Impairment of goodwill	6	11,843	-	11,843	-
Results from operating activities		(19,175)	14,098	(30,374)	20,036
Finance income	12	533	1,186	2,735	5,120
Finance costs	12	6,241	2,890	14,412	3,761
(Loss) earnings before income taxes		(24,883)	12,394	(42,051)	21,395
Income tax (recovery) expense	11	(1,786)	3,521	(6,285)	5,703
Net (loss) earnings		\$ (23,097)	\$ 8,873	\$ (35,766)	\$ 15,692
(Loss) earnings per share :	13				
Basic		\$ (0.47)	\$ 0.14	\$ (0.61)	\$ 0.25
Diluted		(0.47)	0.14	(0.61)	0.25

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

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

(Unaudited)

(in thousands of Canadian dollars)

	Notes	For the 13 weeks ended		For the 39 weeks ended	
		November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Net (loss) earnings		\$ (23,097)	\$ 8,873	\$ (35,766)	\$ 15,692
Other comprehensive (loss) income					
Items that are or may be reclassified subsequently to net earnings:					
Cash flow hedges (net of tax of \$91 for the 13 weeks and \$75 for the 39 weeks ended November 2, 2019; net of tax of \$154 for the 13 weeks and \$2,577 for the 39 weeks ended November 3, 2018)	9	(249)	(420)	(207)	7,021
Foreign currency translation differences	9	13	(40)	(35)	(270)
Total other comprehensive (loss) income		(236)	(460)	(242)	6,751
Total comprehensive (loss) income		\$ (23,333)	\$ 8,413	\$ (36,008)	\$ 22,443

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

**REITMANS (CANADA) LIMITED**  
**CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS**

(Unaudited)

(in thousands of Canadian dollars)

	Notes	November 2, 2019	November 3, 2018	February 2, 2019
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	4	\$ 67,346	\$ 124,698	\$ 112,518
Marketable securities	12	-	58,233	49,690
Trade and other receivables		7,801	6,019	7,897
Derivative financial asset	15	252	4,518	1,900
Inventories	5	175,254	149,928	146,809
Prepaid expenses		15,163	20,503	19,771
Total Current Assets		<b>265,816</b>	<b>363,899</b>	<b>338,585</b>
<b>NON-CURRENT ASSETS</b>				
Property and equipment		89,463	99,219	95,921
Intangible assets		19,546	19,494	21,639
Right-of-use assets	3a)	193,797	-	-
Goodwill	6	-	11,843	11,843
Deferred income taxes		30,582	24,159	24,829
Total Non-Current Assets		<b>333,388</b>	<b>154,715</b>	<b>154,232</b>
<b>TOTAL ASSETS</b>		<b>\$ 599,204</b>	<b>\$ 518,614</b>	<b>\$ 492,817</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables	7	\$ 111,072	\$ 114,410	\$ 98,842
Derivative financial liability	15	1,023	-	966
Deferred revenue	8	10,340	10,174	15,209
Income taxes payable		344	4,507	4,201
Current portion of lease liabilities	3a)	61,509	-	-
Total Current Liabilities		<b>184,288</b>	<b>129,091</b>	<b>119,218</b>
<b>NON-CURRENT LIABILITIES</b>				
Trade and other payables	7	222	6,891	5,170
Deferred lease credits		-	8,069	7,789
Lease liabilities	3a)	141,704	-	-
Pension liability		21,089	19,589	21,043
Total Non-Current Liabilities		<b>163,015</b>	<b>34,549</b>	<b>34,002</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	9	27,406	38,397	38,397
Contributed surplus		10,277	10,164	10,245
Retained earnings		215,744	305,243	292,239
Accumulated other comprehensive (loss) income	9	(1,526)	1,170	(1,284)
Total Shareholders' Equity		<b>251,901</b>	<b>354,974</b>	<b>339,597</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 599,204</b>	<b>\$ 518,614</b>	<b>\$ 492,817</b>

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

**REITMANS (CANADA) LIMITED**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Unaudited)

(in thousands of Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
<b>Balance as at February 3, 2019</b>		\$ 38,397	\$ 10,245	\$ 292,239	\$ (1,284)	\$ 339,597
IFRS 16 adoption adjustment (net of tax)	3a)	-	-	767	-	767
<b>Restated balance as at February 3, 2019</b>		<b>38,397</b>	<b>10,245</b>	<b>293,006</b>	<b>(1,284)</b>	<b>340,364</b>
Net loss		-	-	(35,766)	-	(35,766)
Total other comprehensive loss	9	-	-	-	(242)	(242)
<b>Total comprehensive loss for the period</b>		<b>-</b>	<b>-</b>	<b>(35,766)</b>	<b>(242)</b>	<b>(36,008)</b>
Share-based compensation costs	10	-	32	-	-	32
Dividends	9	-	-	(8,776)	-	(8,776)
Purchase of Class A non-voting shares pursuant to substantial issuer bid	9	(10,991)	-	-	-	(10,991)
Excess of purchase price of Class A non-voting shares over carrying amount	9	-	-	(32,720)	-	(32,720)
<b>Total (distributions to) contributions by owners of the Company</b>		<b>(10,991)</b>	<b>32</b>	<b>(41,496)</b>	<b>-</b>	<b>(52,455)</b>
<b>Balance as at November 2, 2019</b>		<b>\$ 27,406</b>	<b>\$ 10,277</b>	<b>\$ 215,744</b>	<b>\$ (1,526)</b>	<b>\$ 251,901</b>
<b>Balance as at February 4, 2018</b>		\$ 38,397	\$ 10,119	\$ 297,895	\$ (5,581)	\$ 340,830
IFRS 15 adoption adjustment (net of tax)		-	-	1,157	-	1,157
<b>Restated balance as at February 4, 2018</b>		<b>38,397</b>	<b>10,119</b>	<b>299,052</b>	<b>(5,581)</b>	<b>341,987</b>
Net earnings		-	-	15,692	-	15,692
Total other comprehensive income	9	-	-	-	6,751	6,751
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>15,692</b>	<b>6,751</b>	<b>22,443</b>
Share-based compensation costs	10	-	45	-	-	45
Dividends	9	-	-	(9,501)	-	(9,501)
<b>Total contributions by (distributions to) owners of the Company</b>		<b>-</b>	<b>45</b>	<b>(9,501)</b>	<b>-</b>	<b>(9,456)</b>
<b>Balance as at November 3, 2018</b>		<b>\$ 38,397</b>	<b>\$ 10,164</b>	<b>\$ 305,243</b>	<b>\$ 1,170</b>	<b>\$ 354,974</b>

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

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

(Unaudited)  
(in thousands of Canadian dollars)

	Notes	For the 13 weeks ended		For the 39 weeks ended	
		November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net (loss) earnings		\$ (23,097)	\$ 8,873	\$ (35,766)	\$ 15,692
Adjustments for:					
Depreciation, amortization and net impairment losses		25,928	8,446	78,403	28,785
Impairment of goodwill	6	11,843	-	11,843	-
Share-based compensation (recovery) costs	10	(124)	31	(57)	206
Net change in fair value and loss on disposal of marketable securities	12	4,409	2,696	8,264	3,761
Net change in transfer of realized loss (gain) on cash flow hedges to inventory		116	(221)	1,423	(4,628)
Foreign exchange gain		(248)	(2,723)	(4,343)	(1,048)
Interest on lease liabilities	12	1,832	-	5,696	-
Interest and dividend income, net	12	(501)	(1,186)	(2,735)	(3,290)
Income tax (recovery) expense		(1,786)	3,521	(6,285)	5,703
		<b>18,372</b>	<b>19,437</b>	<b>56,443</b>	<b>45,181</b>
Changes in:					
Trade and other receivables		(1,206)	269	381	(1,160)
Inventories		(9,744)	(6,784)	(28,445)	(12,823)
Prepaid expenses		1,114	16	(1,585)	(1,316)
Trade and other payables		(4,115)	7,709	14,272	19,515
Pension liability		(102)	100	45	352
Deferred lease credits		-	860	-	1,619
Deferred revenue		(2,355)	(5,702)	(4,869)	(9,820)
Cash from operating activities		<b>1,964</b>	<b>15,905</b>	<b>36,242</b>	<b>41,548</b>
Interest received		377	581	1,443	1,394
Dividends received		288	663	1,582	1,917
Income taxes received		255	30	267	2,336
Income taxes paid		(103)	-	(3,800)	(4)
Net cash flows from operating activities		<b>2,781</b>	<b>17,179</b>	<b>35,734</b>	<b>47,191</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>					
Additions to property and equipment and intangible assets, net		(5,256)	(7,230)	(17,397)	(18,457)
Purchases of marketable securities		-	(7,505)	-	(7,505)
Proceeds on sale of marketable securities		41,425	7,536	41,425	7,536
Cash flows from (used in) investing activities		<b>36,169</b>	<b>(7,199)</b>	<b>24,028</b>	<b>(18,426)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>					
Dividends paid	9	(2,442)	(3,167)	(8,776)	(9,501)
Payment of lease liabilities		(18,982)	-	(56,755)	-
Purchases of Class A non-voting shares pursuant to substantial issuer bid	9	-	-	(43,711)	-
Cash flows used in financing activities		<b>(21,424)</b>	<b>(3,167)</b>	<b>(109,242)</b>	<b>(9,501)</b>
<b>FOREIGN EXCHANGE GAIN ON CASH HELD IN FOREIGN CURRENCY</b>					
		<b>258</b>	<b>2,684</b>	<b>4,308</b>	<b>778</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
		<b>17,784</b>	<b>9,497</b>	<b>(45,172)</b>	<b>20,042</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>					
		<b>49,562</b>	<b>115,201</b>	<b>112,518</b>	<b>104,656</b>
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>					
		<b>\$ 67,346</b>	<b>\$ 124,698</b>	<b>\$ 67,346</b>	<b>\$ 124,698</b>

Supplementary cash flow information (note 14)

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

**REITMANS (CANADA) LIMITED**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)

**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, 40<sup>th</sup> 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 2, 2019.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on December 4, 2019.

**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;
- lease liabilities are initially measured at the present value of the lease payments that are not paid at the lease commencement date;
- 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 2, 2019, except as noted below relating to the adoption of IFRS 16, Leases.

##### *Judgments Made in Relation to New Accounting Policies Applied*

Management exercises judgment in determining the appropriate lease term on a lease by lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option, including investments in major leaseholds and store performances. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew.

Management considers reasonably certain to be a high threshold. Changes in the economic environment or changes in the retail industry may impact management's assessment of lease term, and any changes in management's estimate of lease terms may have a material impact on the Company's consolidated balance sheet and consolidated statement of earnings.

##### *Key Sources of Estimation Uncertainty*

In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset if the interest rate implicit in the lease is not readily determinable. Management determines the incremental borrowing rate of each leased asset by incorporating the Company's creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

### 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 2, 2019 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

#### a) Adoption of New Accounting Policies

##### *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 became effective for annual periods beginning on or after January 1, 2019.

The Company adopted the standard for the annual period beginning February 3, 2019 and applied the requirements of the 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. Under the modified retrospective approach, the Company has elected to use the following practical expedients permitted on adoption of IFRS 16:

- the Company did not reassess whether a contract is, or contains, a lease at the date of initial application and instead applied IFRS 16 to contracts that were previously identified as leases applying IAS 17, *Leases*;
- the Company relied on the assessment of the onerous lease provisions under IAS 37, *Provisions, contingent liabilities and contingent assets*, instead of performing an impairment review;
- the Company excluded initial direct costs in the measurement of the right-of-use assets at the date of initial application; and
- the Company used hindsight in determining the lease term at the date of initial application.

The following table summarizes the impact of adopting IFRS 16 on certain items on the Company's consolidated balance sheet as at February 3, 2019:

	<b>As at February 2, 2019</b>	<b>Transition adjustments</b>	<b>As at February 3, 2019</b>
<b>Current assets</b>			
Trade and other receivables	\$ 7,897	\$ 150	\$ 8,047
Prepaid expenses	19,771	(6,193)	13,578
<b>Non-current assets</b>			
Right-of-use assets <sup>(1)</sup>	-	210,852	210,852
Net investment receivable	-	425	425
Deferred income taxes	24,829	(283)	24,546
<b>Current liabilities</b>			
Trade and other payables	98,842	(1,719)	97,123
Current portion of lease liabilities <sup>(2)</sup>	-	58,034	58,034
<b>Non-current liabilities</b>			
Trade and other payables	5,170	(4,766)	404
Deferred lease credits	7,789	(7,789)	-
Lease liabilities <sup>(2)</sup>	-	160,424	160,424
<b>Shareholders' equity</b>			
Retained earnings	292,239	767	293,006

(1) As at November 2, 2019, right-of-use assets decreased \$17,055 to \$193,797 due to lease additions of \$35,814 offset by depreciation and impairment of \$52,869 during the 39 weeks then ended.

(2) As at November 2, 2019, lease liabilities decreased \$15,245 to \$203,213 due to lease additions of \$35,814 and interest expense of \$5,696 offset by lease payments of \$56,755 during the 39 weeks then ended.

The Company used its incremental borrowing rates as at February 3, 2019 to measure its lease liabilities. The weighted average incremental borrowing rate was 3.51% at date of adoption.

The following table reconciles the operating lease commitments disclosed under IAS 17 as at February 2, 2019 and the lease liabilities recognized on February 3, 2019:

Store and office operating lease commitments	\$ 244,024
Other operating lease commitments	6,452
Total operating lease commitments disclosed as at February 2, 2019	<u>250,476</u>
Other service contracts	(4,061)
Variable lease payments that do not depend on an index or rate	(1,311)
Operating lease commitments of leases commencing on or after February 3, 2019	(2,870)
Extension options reasonable certain to be exercised	1,783
Recognition exemption due to low-value leases	(33)
Lease liabilities recognized as at February 3, 2019 – undiscounted	<u>\$ 243,984</u>
Discounted using the incremental borrowing rate as at February 3, 2019	<u>\$ 218,458</u>
Current portion of lease liabilities	\$ 58,034
Non-current portion of lease liabilities	160,424
Total lease liabilities	<u>\$ 218,458</u>

As a result of the adoption of IFRS 16, the Company updated its accounting policy for leases as follows:

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the leased asset is available for use by the Company. The lease payments include fixed and in-substance fixed payments and variable lease payments that depend on an index or rate, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate. Generally, the Company's uses the lessee's incremental borrowing rate for its present value calculations. Lease payments are discounted over the lease term, which includes the fixed term and renewal options that the Company is reasonably certain to exercise. Lease payments are allocated between the lease liability and a finance cost, which is recognized in finance costs over the lease term in the consolidated statement of earnings.

When a contract contains both lease and non-lease components, the Company will allocate the consideration in the contract to each of the components on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Relative stand-alone prices are determined by maximizing the most observable prices for a similar asset and/or service.

Lease payments for assets that are exempt through the short-term exemption and variable payments not based on an index or rate are recognized in selling, distribution and administrative expenses as incurred.

Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any re-measurement of lease liabilities. Cost is calculated as the initial measurement of the lease liability plus any initial direct costs and any lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the useful life.

In sublease arrangements where the Company is the intermediate lessor, it determines whether the sublease is finance or operating by reference to the right-of-use asset. A sublease is a finance sublease if substantially all of the risks and rewards of the head lease right-of-use asset have been transferred to the sub-lessee and the Company accounts for the sublease as two separate contracts. The Company derecognizes the right-of-use asset corresponding to the head lease and records a net investment in the finance sublease with corresponding interest income recognized in finance income in the consolidated statement of earnings and a net investment receivable recognized in trade and other receivables in the consolidated balance sheet.

#### *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 adopted the amendments to IAS 19 in its financial statements for the annual period beginning on February 3, 2019. The adoption of this standard did not have an impact on the Company's consolidated financial statements.

#### 4. CASH AND CASH EQUIVALENTS

	<u>November 2, 2019</u>	<u>November 3, 2018</u>	<u>February 2, 2019</u>
Cash	\$ 63,829	\$ 123,386	\$ 107,801
Short-term deposits	3,517	1,312	4,717
	<u>\$ 67,346</u>	<u>\$ 124,698</u>	<u>\$ 112,518</u>

The Company's cash held with banks bears interest at variable rates. Short-term deposits at November 2, 2019 were bearing interest at 0.6% (November 3, 2018 – 1.0%; February 2, 2019 – 1.1%).

#### 5. INVENTORIES

During the 13 and 39 weeks ended November 2, 2019, inventories recognized as cost of goods sold amounted to \$103,391 and \$293,695, respectively (\$100,125 and \$297,154 for the 13 and 39 weeks ended November 3, 2018). In addition, for the 13 and 39 weeks ended November 2, 2019, the Company recorded \$3,053 and \$6,254, respectively (\$3,143 and \$8,582 for the 13 and 39 weeks ended November 3, 2018) 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 \$2,511 as at November 2, 2019 (November 3, 2018 - \$1,904; February 2, 2019 - \$1,248).

#### 6. GOODWILL

For the purpose of impairment testing, goodwill has been allocated to one of the groups of cash-generating units ("CGUs"), 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. Given the decline in profitability of the Addition Elle banner as compared to forecasts and prior periods, the Company concluded that an interim impairment test at November 2, 2019, was required. In assessing whether goodwill is impaired, the carrying amount of the Addition Elle CGU 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 November 2, 2019, the recoverable amount of the Addition Elle banner CGU was based on value in use and was determined by discounting the future cash flows generated from continuing use. Cash flow projections over a three-year period were used along with a terminal value. Cash flows for fiscal 2021 were projected based on past experience as well as actual operating results and a sales growth rate of 1% was used in fiscal 2022 and fiscal 2023. The terminal value was based on the long-term average growth rate for the industry, which was estimated to be 1%. Projected cash flows were discounted using an after-tax discount rate of 13.5%. 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 recorded a goodwill impairment loss of \$11,843 in the 13 and 39 weeks ended November 2, 2019 reducing the carrying amount to nil.

## 7. TRADE AND OTHER PAYABLES

	<u>November 2, 2019</u>	<u>November 3, 2018</u>	<u>February 2, 2019</u>
Trade payables	\$ 77,657	\$ 76,749	\$ 73,776
Personnel liabilities	21,826	23,250	20,276
Other non-trade payables	5,954	8,151	499
Refund liability	5,287	4,497	2,746
Payables relating to premises	570	5,320	6,378
Onerous contracts <sup>(1)</sup>	-	3,334	337
	<u>111,294</u>	<u>121,301</u>	<u>104,012</u>
Less non-current portion	222	6,891	5,170
	<u>\$ 111,072</u>	<u>\$ 114,410</u>	<u>\$ 98,842</u>

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

	<u>November 2, 2019</u>	<u>November 3, 2018</u>	<u>February 2, 2019</u>
Deferred rent and other payables relating to premises	\$ 222	\$ 5,098	\$ 4,825
Onerous contracts	-	1,632	256
Performance Share Units	-	161	89
Total non-current portion of trade and other payables	<u>\$ 222</u>	<u>\$ 6,891</u>	<u>\$ 5,170</u>

- (1) As a result of the decision to close its Hyba stores for the year ended February 2, 2019, the Company recognized a provision for onerous leases related to these stores. For the 39 weeks ended November 2, 2019, the onerous contracts provision decreased to nil due to amounts paid and reversed during the period. For the 13 and 39 weeks ended November 3, 2018, the onerous contracts provision (current and non-current) increased \$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. For the year ended February 2, 2019, the onerous contracts provision (current and non-current) decreased by \$2,537 due to amounts paid and reversed during the year.

## 8. DEFERRED REVENUE

	<u>November 2, 2019</u>	<u>November 3, 2018</u>	<u>February 2, 2019</u>
Customer loyalty award programs	\$ 1,292	\$ 1,969	\$ 1,360
Unredeemed gift cards	9,048	8,205	13,849
	<u>\$ 10,340</u>	<u>\$ 10,174</u>	<u>\$ 15,209</u>

## 9. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

	For the 39 weeks ended			
	November 2, 2019		November 3, 2018	
	Number of shares (in 000's)	Carrying amount	Number of shares (in 000's)	Carrying amount
<b>Common shares</b>				
Balance at beginning and end of the period	13,440	\$ 482	13,440	\$ 482
<b>Class A non-voting shares</b>				
Balance at beginning of the period	49,890	37,915	49,890	37,915
Purchase of shares under substantial issuer bid	(14,463)	(10,991)	-	-
Balance at end of the period	35,427	26,924	49,890	37,915
Total share capital	48,867	\$ 27,406	63,330	\$ 38,397

### *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 under a substantial issuer bid*

On June 17, 2019, the Company announced the terms to its substantial issuer bid (the "Offer") to purchase for cancellation up to 15,000,000 of its issued and outstanding Class A non-voting shares at a price of \$3.00 per share. The Offer commenced on June 20, 2019 and expired on July 26, 2019. The Offer resulted in the Company purchasing 14,462,944 Class A non-voting shares having a carrying amount of \$10,991, for an aggregate consideration of \$43,711 (including related transaction costs of \$322), which were subsequently cancelled.

The excess of the purchase price over the carrying amount of the shares of \$32,720 was recognized as a reduction to retained earnings.

### Accumulated Other Comprehensive Income (“AOCI”)

AOCI is comprised of the following:

	Cash Flow Hedges	Foreign Currency Translation Differences	Total AOCI
Balance at February 3, 2019	\$ (352)	\$ (932)	\$ (1,284)
Net change in fair value of cash flow hedges (net of tax of \$234)	649	-	649
Transfer of realized gain on cash flow hedges to inventory (net of tax of \$309)	(856)	-	(856)
Change in foreign currency translation differences	-	(35)	(35)
Balance at November 2, 2019	<u>\$ (559)</u>	<u>\$ (967)</u>	<u>\$ (1,526)</u>
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>

### Dividends

The following dividends were declared and paid by the Company:

	For the 13 weeks ended		For the 39 weeks ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Common shares and Class A non-voting shares	\$ 2,442	\$ 3,167	\$ 8,776	\$ 9,501
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 amended share option 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. Under the amended plan, the granting of options and the related vesting period, which is normally up to 4 years (previously up to 5 years), are at the discretion of the Board of Directors and the options have a maximum term of up to 7 years (previously up to 10 years). The exercise price payable for each Class A non-voting share covered by a share option is determined by the Board of Directors at the date of grant, but may not be less than the closing price of the Company’s shares on the trading day immediately preceding the effective date of the grant. 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.

All outstanding options issued prior to the effective date of the amended plan continue to vest and be governed by the terms of the previous plan.

The changes in outstanding share options were as follows:

	For the 13 weeks ended				For the 39 weeks ended			
	November 2, 2019		November 3, 2018		November 2, 2019		November 3, 2018	
	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	1,830	\$ 8.14	2,071	\$ 7.91	1,938	\$ 8.06	2,401	\$ 7.81
Forfeited	(50)	6.75	(133)	5.78	(158)	6.65	(463)	6.79
Outstanding, at end of period	1,780	\$ 8.18	1,938	\$ 8.06	1,780	\$ 8.18	1,938	\$ 8.06
Options exercisable, at end of period	1,571	\$ 8.42	1,403	\$ 8.73	1,571	\$ 8.42	1,403	\$ 8.73

No share option awards were granted or exercised for the 13 and 39 weeks ended November 2, 2019 and November 3, 2018. The cost of granted options are expensed over their vesting period based on their estimated fair values on the date of the grant, determined using the Black Scholes option pricing model.

For the 13 and 39 weeks ended November 2, 2019, the Company recognized compensation costs of \$3 and \$32, respectively, relating to its share option plan (\$7 and \$45 for the 13 and 39 weeks ended November 3, 2018), with a corresponding credit 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 meeting pre-determined, 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 10, 2019, the Company granted 440,000 PSUs at a weighted average share price of \$3.23 (481,000 PSUs at a weighted average share price of \$4.06 for the 39 weeks ended November 3, 2018).

The changes in outstanding PSUs were as follows:

	For the 13 weeks ended		For the 39 weeks ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
	PSUs (in 000's)	PSUs (in 000's)	PSUs (in 000's)	PSUs (in 000's)
Outstanding, at beginning of period	916	883	770	546
Granted	-	-	440	481
Forfeited	(69)	(81)	(180)	(225)
Expired	-	-	(183)	-
Outstanding, at end of period	847	802	847	802

As at November 2, 2019, the Company did not expect to meet the minimum non-market performance conditions required for all issued PSUs to vest. The Company recognized a recovery of share-based compensation costs related to PSUs of \$95 in selling and distribution expenses and \$32 in administrative

expenses for the 13 weeks ended November 2, 2019 (\$66 in selling and distribution expenses and \$23 in administrative expenses for the 39 weeks ended November 2, 2019) with a corresponding change in other non-current payables.

As at November 3, 2018, the Company recognized share-based compensation expenses 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, 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 net change in fair value and loss on disposal of marketable securities and goodwill impairment loss. 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 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Dividend income from marketable securities	\$ 138	\$ 584	\$ 1,427	\$ 1,841
Interest income	363	602	1,308	1,449
Foreign exchange gain	32	-	-	1,830
Finance income	533	1,186	2,735	5,120
Interest expense on lease liabilities	1,832	-	5,696	-
Net change in fair value and loss on disposal of marketable securities <sup>(1)</sup>	4,409	2,696	8,264	3,761
Foreign exchange loss	-	194	452	-
Finance costs	6,241	2,890	14,412	3,761
Net finance (costs) income recognized in net earnings	\$ (5,708)	\$ (1,704)	\$ (11,677)	\$ 1,359

(1) From August 15, 2019 to August 28, 2019, the Company disposed of its portfolio of marketable securities for proceeds of \$41,425.

### 13. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share is based on a net loss for the 13 and 39 weeks ended November 2, 2019 of \$23,097 and \$35,766, respectively (net earnings of \$8,873 and \$15,962, respectively for the 13 and 39 weeks ended November 3, 2018).

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

	<b>For the 13 weeks ended</b>		<b>For the 39 weeks ended</b>	
	<b>November 2, 2019</b>	<b>November 3, 2018</b>	<b>November 2, 2019</b>	<b>November 3, 2018</b>
Weighted average number of shares - basic	<b>48,867</b>	63,330	<b>58,350</b>	63,330
Weighted average number of shares - diluted	<b>48,867</b>	63,330	<b>58,350</b>	63,330

The calculation of weighted average number of shares reflects the purchase and cancellation of 14,462,944 Class A non-voting shares as described in Note 9.

All share options were excluded from the calculation of diluted (loss) earnings per share for the 13 and 39 weeks ended November 2, 2019 and November 3, 2018 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

	<b>November 2, 2019</b>	<b>November 3, 2018</b>	<b>February 2, 2019</b>
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	<b>\$ 717</b>	\$ 740	\$ 1,133

Included in depreciation, amortization and impairment losses are write-offs of property and equipment related to store closures and asset impairment charges of \$957 and \$3,245 for the 13 and 39 weeks ended November 2, 2019 (\$246 and \$2,445 for the 13 and 39 weeks ended November 3, 2018, respectively). The impairment related to the property and equipment and right-of-use assets 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 2, 2019, no asset impairment charges were reversed following an improvement in the profitability of certain CGU's (\$409 reversed for the 13 and 39 weeks ended November 3, 2018). Net impairment losses have been recorded in selling and distribution expenses.

## 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.

<b>November 2, 2019</b>								
	<b>Carrying Amount</b>				<b>Fair Value</b>			
	<b>Fair Value through Profit or Loss</b>	<b>Fair Value of Hedging Instruments</b>	<b>Amortized Cost</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>	
<b>Financial assets measured at fair value through profit or loss</b>								
Derivative financial asset	\$ -	\$ 252	\$ -	\$ 252	\$ -	\$ 252	\$ 252	
<b>Financial liabilities measured at fair value through profit or loss</b>								
Derivative financial liability	\$ -	\$ 1,023	\$ -	\$ 1,023	\$ -	\$ 1,023	\$ 1,023	
<b>November 3, 2018</b>								
	<b>Carrying Amount</b>				<b>Fair Value</b>			
	<b>Fair Value through Profit or Loss</b>	<b>Fair Value of Hedging Instruments</b>	<b>Amortized Cost</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>	
<b>Financial assets measured at fair value through profit or loss</b>								
Derivative financial asset	\$ -	\$ 4,518	\$ -	\$ 4,518	\$ -	\$ 4,518	\$ 4,518	
Marketable securities	\$ 58,233	-	\$ -	\$ 58,233	\$ 58,233	\$ -	\$ 58,233	
<b>February 2, 2019</b>								
	<b>Carrying Amount</b>				<b>Fair Value</b>			
	<b>Fair Value through Profit or Loss</b>	<b>Fair Value of Hedging Instruments</b>	<b>Amortized Cost</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>	
<b>Financial assets measured at fair value through profit or loss</b>								
Derivative financial asset	\$ -	\$ 1,900	\$ -	\$ 1,900	\$ -	\$ 1,900	\$ 1,900	
Marketable securities	\$ 49,690	\$ -	\$ -	\$ 49,690	\$ 49,690	\$ -	\$ 49,690	
<b>Financial liabilities measured at fair value through profit or loss</b>								
Derivative financial liability	\$ -	\$ 966	\$ -	\$ 966	\$ -	\$ 966	\$ 966	

There were no transfers between levels of the fair value hierarchy for the periods ended November 2, 2019, November 3, 2018 and February 2, 2019.

## Derivative financial instruments

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

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

	<b>Average Strike Price</b>	<b>Notional Amount in U.S. Dollars</b>	<b>Derivative Financial Asset</b>	<b>Derivative Financial Liability</b>	<b>Net</b>
<b>November 2, 2019</b>	<b>\$ 1.319</b>	<b>\$ 165,000</b>	<b>\$ 252</b>	<b>\$ (1,023)</b>	<b>\$ (771)</b>
November 3, 2018	\$ 1.274	\$ 130,000	\$ 4,518	\$ -	\$ 4,518
February 2, 2019	\$ 1.299	\$ 155,000	\$ 1,900	\$ (966)	\$ 934

## 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 2, 2019 from those described in the Company's audited annual consolidated financial statements for the year ended February 2, 2019.