

# REITMANS

(CANADA) LIMITED

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

**For the 13 and 39 weeks ended October 31, 2020**

# REITMANS

(CANADA) LIMITED

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the 13 and 39 weeks ended October 31, 2020 and the audited annual consolidated financial statements for the fiscal year ended February 1, 2020 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 17, 2020.

All financial information contained in this MD&A and Reitmans' unaudited condensed consolidated interim financial statements has been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), as issued by the International Accounting Standards Board ("IASB"). All monetary amounts shown in the tables in this MD&A are in millions of Canadian dollars unless otherwise indicated, except per share and strike price amounts. The unaudited condensed consolidated interim financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on December 17, 2020.

Unless otherwise indicated, all comparisons of results for the 13 weeks ended October 31, 2020 ("third quarter of 2021") are against results for the 13 weeks ended November 2, 2019 ("third quarter of 2020") and all comparisons of results for the 39 weeks ended October 31, 2020 ("year to date fiscal 2021") are against results for the 39 weeks ended November 2, 2019 ("year to date fiscal 2020"). Consolidated results presented (including restated comparative figures) exclude the Addition Elle and Thyme Maternity banners which have been presented as discontinued operations.

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).

### Key Business Developments and Subsequent Events

Since the coronavirus disease (COVID-19) was declared a pandemic on March 11, 2020 by the *World Health Organization*, there have been significant impacts for the Company. The measures adopted by the Federal and provincial governments in order to mitigate the spread of the pandemic required the Company to temporarily close all of its retail locations across the country effective March 17, 2020. During the period of closure, the Company's only sales were derived from its e-commerce channel; its distribution and fulfillment center remained open while the Company leveraged its ship-from-store capabilities. In late May 2020, and in accordance with the laws and regulations of each applicable region and province, the Company began to reopen its retail locations. By the end of June 2020, all of the Company's stores were open for business. During the third quarter of 2021, with the Company operating all of its stores, the impact from COVID-19 was still omnipresent. Shopping behaviour has not returned to pre-pandemic levels. From the beginning of the pandemic, consumers quickly shifted their spending habits from non-essential items (including apparel goods) to essential items and other product categories that help consumers work, learn and entertain from the comfort of their home. In late September 2020, both the Federal and certain provincial governments indicated that their respective jurisdictions were in a "second wave" of the COVID-19 pandemic. During the year to date fiscal 2021, the Company has incurred incremental costs for personal protective equipment and additional supply costs associated with social distancing protocols and cleaning regimens being put in place in its retail locations, distribution and fulfillment center and head office. Subsequent to the third quarter of 2021, with the number of daily cases continuing to increase at an accelerated rate, certain provincial governments have enacted a variety of measures, ranging from limiting the number of people

allowed in the Company's stores at the same time to temporarily closing stores. The Company has temporarily closed some of its stores as a result of the measures announced by local governments corresponding to the municipalities targeted by such measures. During these temporary closures, the Company, as permitted by the applicable measures announced, will continue to fulfill ecommerce orders via its store fulfillment capabilities and will continue to follow all government and health organization guidelines.

The extent to which COVID-19 will continue to impact the Company's business, including its supply chain, consumer shopping behavior and consumer demand, including online shopping, will depend on future developments, which are highly uncertain and cannot be predicted at this time. As the Company navigates through challenges caused by COVID-19, its focus will be to adapt to customers' changing product preferences, closely monitor its cash position and control its spending, while managing its inventory levels in line with the unprecedented change in demand behavior since COVID-19 started. Current financial information may not necessarily be indicative of future operating results.

The Company had taken many measures to protect its financial position during this challenging situation. Such measures included:

- Furloughing a substantial number of store and head office employees;
- All other employees collectively contributing to on-going cost-cutting initiatives through temporary salary reductions;
- Cancelling or delaying significant investments in capital expenditures for the remainder of fiscal 2021;
- Adjusting inventory levels by cancelling or delaying many orders;
- Reducing all non-payroll discretionary expenses, including marketing and travel; and
- Extending payment terms and asking for temporary price concessions for both merchandise and non-merchandise vendor invoices.

Such measures partially mitigated the impact of COVID-19 on the Company's business. However, with the deterioration in the Company's financial performance and its financial position since the end of the fiscal 2020, the continued uncertainty surrounding the pandemic, and after evaluating all its strategic options, on May 19, 2020 the Company obtained an initial order (the "Order") from the Superior Court of Québec (the "Court") to seek protection from creditors under the Companies' Creditors Arrangement Act (the "CCAA") and Ernst & Young Inc. was appointed as the Monitor. Since its initial filing on May 19, 2020 the Company obtained three extensions of the protection under CCAA; initially until July 27, 2020, a second extension until October 16, 2020 and a further extension until January 22, 2021. The CCAA process allows the Company to implement an operational and commercial restructuring plan to re-position the Company for long-term success (the "restructuring plan"). On June 1, 2020, the Company announced that, as part of its restructuring plan and as approved by the Monitor, it was closing the Thyme Maternity and Addition Elle banners and reducing its workforce by approximately 1,100 employees in its retail stores and approximately 300 employees at its head office. This led to the closure of all retail stores for both banners. Their respective e-commerce websites have also ceased operations. See section entitled "Discontinued Operations".

During the third quarter of 2021, the Monitor commenced the claims process for creditor amounts owing that existed as at May 19, 2020. Creditors had to file their proof of claim and former employees had to file the appropriate notice of dispute document with the Monitor on or before October 21, 2020. The Monitor is currently working on reviewing the claims filed and will contact creditors where discrepant claims exist between the Company's records and amounts claimed. Once all claims filed have been reconciled, settlement thereof will then be addressed in a Plan of Arrangement to be filed and communicated at a later date.

In accordance with the policies of the Toronto Stock Exchange (the "TSX"), trading in Reitmans' Common shares and Class A non-voting shares was suspended on May 19, 2020 and the Company's shares were delisted from the TSX effective at the close of business on July 29, 2020. The Company began to work on a transition plan to allow trading of its shares on the TSX Venture Exchange (the "TSX-V") and, on September 3, 2020, its shares began trading on the TSX-V. The trading symbol of the Company's Common shares and Class A shares remained "RET" and "RET-A", respectively.

For the year to date fiscal 2021, the Company incurred a net loss of \$161.3 million. As at October 31, 2020, the Company's current liabilities of \$300.2 million exceed current assets of \$230.7 million. On August 5, 2020, the Company secured interim financing ("DIP Loan") up to a maximum amount of \$60 million, including facilities available for securing letters of credit of up to \$5.0 million, with a Canadian financial institution. As of the date of this MD&A, the Company has not drawn funds from the DIP Loan facility, other than for the issuance of letters of credit totalling \$0.2 million. With the uncertainties surrounding the impact of COVID-19 going forward, the Company cannot guarantee that such DIP Loan will not be utilized in the future.

These factors and conditions, combined with the unpredictability of the outcome of the matters arising from the CCAA proceedings, indicate that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business.

The unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, management must take into account all available information about the future, including estimated future cash flows, for a period of at least twelve months following the end of the reporting period. The unaudited condensed consolidated interim financial statements as at October 31, 2020 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material. It is not possible to reliably estimate the length and severity of COVID-19 and the impact on the financial results and financial condition of the Company in future periods. During the remainder of fiscal 2021, the Company will continue to take into consideration the most recent developments and impacts of the pandemic, including updated assessments of future cash flows. Any additional impacts resulting from COVID-19 will be reflected in the financial results of fiscal 2021, if applicable.

#### Discontinued Operations

As part of its restructuring plan, the Company closed the Thyme Maternity and Addition Elle banners and, as a result, their results and cash flows have been classified as discontinued operations. IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires that the comparative statements of earnings and comprehensive income (loss) be presented as if the operations were discontinued from the start of the comparative year. As a result, discontinued operations are excluded from the loss from continuing operations and are presented as income (loss) from discontinued operations, net of tax, as a separate line item in the consolidated statements of earnings (loss).

## 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, including statements regarding the impact of COVID-19 on the Company's business, financial position and operations, and are based on several assumptions which give rise to the possibility that actual results could differ materially from the Company's expectations expressed in or implied by such forward-looking statements and that the objectives, plans, strategic priorities and business outlook may not be achieved. Consequently, the Company cannot guarantee that any forward-looking statement will materialize, or if any of them do, what benefits the Company will derive from them. Forward-looking statements are provided in this MD&A for the purpose of giving information about management's current expectations and plans as of the date of this MD&A, and allowing investors and others to get a better understanding of the Company's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose. 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, expectations, 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:

- the ability to continue as a going concern;
- the outcome of the CCAA proceedings and their impact upon supplier relationships and customer behavior;
- foreign currency fluctuations, including high levels of volatility with respect to the US dollar reflecting uncertainties relating to COVID-19;
- 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;
- significant economic disruptions caused by global health risks (such as COVID-19) that influences sanitary measures (such as confinement and store closures), consumer demand and hamper the ability to get merchandise on a timely basis;
- changes in product costs and supply channels, including disruption of the Company's supply chain resulting from COVID-19;
- 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; and
- 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 and loss on disposal of marketable securities, interest expense, depreciation, amortization, impairment of non-financial assets and restructuring costs. The Company updated its definition of Adjusted EBITDA to exclude the restructuring costs which have been incurred as a result of the restructuring plan. Subsequent to the classification of the Addition Elle and Thyme Maternity businesses as discontinued operations, Adjusted EBITDA has also been modified to exclude discontinued operations.

The following table reconciles the most comparable GAAP measure, net earnings or loss from continuing operations, 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 and loss on disposal 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 and the exclusion of restructuring costs and discontinued operations presents the results of the on-going businesses. 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 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 behavior, 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.

As highlighted in the section entitled "Key Business Developments and Subsequent Events", on March 17, 2020, the Company announced the temporary closure of its retail stores with store locations reopening from late May 2020 to the end of June 2020, while its e-commerce channel operated throughout the year to date fiscal 2021. Due to the unprecedented nature of COVID-19 and its significant impact on consumers and our ability to service our customers, management believes that comparable sales are not currently representative of the underlying trends of our business and consequently would not provide a meaningful metric in comparisons of year-over-year sales results. Accordingly, this MD&A does not include a discussion of the Company's comparable sales in respect of the third quarter of and year to date fiscal 2021. Management will continue to monitor and evaluate the effects of COVID-19 and will resume the evaluation of comparable sales when year-over-year results are more representative.

The following table reconciles net loss from continuing operations to Adjusted EBITDA from continuing operations:

	For the third quarter of		Year to date fiscal	
	2021	2020 <sup>1</sup>	2021	2020 <sup>1</sup>
<b>Net loss from continuing operations</b>	<b>\$ (14.9)</b>	<b>\$ (9.4)</b>	<b>\$ (89.1)</b>	<b>\$ (26.0)</b>
Depreciation and amortization	13.7	20.5	38.8	62.0
Impairment of non-financial assets	4.5	0.3	12.8	2.4
Dividend income	-	(0.1)	-	(1.4)
Interest income	(0.1)	(0.4)	(0.4)	(1.3)
Net change in fair value of marketable securities	-	4.4	-	8.3
Interest expense on lease liabilities	1.4	1.5	4.4	4.6
Income tax expense (recovery)	0.2	(1.1)	0.7	(7.0)
Restructuring costs	3.8	-	27.3	-
<b>Adjusted EBITDA from continuing operations</b>	<b>\$ 8.6</b>	<b>\$ 15.7</b>	<b>\$ (5.5)</b>	<b>\$ 41.6</b>
<b>Adjusted EBITDA from continuing operations as % of Sales</b>	<b>5.3%</b>	<b>10.8%</b>	<b>(1.7)%</b>	<b>10.4%</b>

<sup>1</sup>Comparative figures have been restated to conform to the current definition, which excludes the effect of discontinued operations.

## OVERVIEW

The Company has a single reportable segment that derives its revenue primarily from the sale of women's 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.

As at October 31, 2020, the Company operates under three banners. As highlighted in the section entitled "Discontinued Operations", Thyme Maternity and Addition Elle have ceased operations and have been reclassified as discontinued operations.



The Reitmans banner, operating stores averaging 4,700 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 fashion, comfort and affordable quality for plus-size women sizes 12–32. Penningtons operates stores averaging 6,000 sq. ft. in power centres across Canada.



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.

## RETAIL BANNERS

	Number of stores at February 1, 2020	Q1 Closings	Q2 Closings	Q3 Openings	Q3 Closings	Number of stores at October 31, 2020	Number of stores at November 2, 2019
Reitmans	260	(1)	(4)	2	(10)	247	260
Penningtons	111	(5)	(1)	4	(17)	92	112
RW&CO.	80	-	-	-	(1)	79	81
<b>Total stores from continuing operations<sup>1</sup></b>	<b>451</b>	<b>(6)</b>	<b>(5)</b>	<b>6</b>	<b>(28)</b>	<b>418</b>	<b>453</b>

<sup>1</sup> All Addition Elle and Thyme Maternity stores have been closed in connection with the restructuring plan and their results and cash flows have been classified as discontinued operations.

Individual 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. Out of the 33 store closures in the second and third quarter of 2021, approximately 94% represent store closures associated with disclaimed leases under the Company's restructuring plan for its continuing operations. 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. With respect to the discontinued operations of Thyme Maternity and Addition Elle, the merchandise was liquidated through the Company's retail network, with minimal quantities written off upon closure of the banners.

## OPERATING RESULTS FOR THE THIRD QUARTER OF 2021 COMPARED TO THE THIRD QUARTER OF 2020

	Third Quarter of 2021	Third Quarter of 2020 <sup>1</sup>	\$ Change	% Change
Sales	\$ 163.4	\$ 183.6	\$ (20.2)	(11.0)%
Cost of goods sold	81.8	86.8	(5.0)	(5.8)%
Gross profit	81.6	96.8	(15.2)	(15.8)%
Gross profit %	49.9%	52.7%		
Selling, distribution and administrative expenses <sup>2</sup>	95.1	101.9	(6.8)	(6.7)%
Results from operating activities	(13.5)	(5.1)	(8.4)	n/a
Net finance costs	(1.2)	(5.4)	4.2	77.8%
Loss before income taxes	(14.7)	(10.5)	(4.2)	(40.0)%
Income tax expense (recovery)	0.2	(1.1)	1.3	n/a
Net loss from continuing operations	(14.9)	(9.4)	(5.5)	(58.5)%
Earnings (loss) from discontinued operations, net of tax	0.4	(13.7)	14.1	n/a
Net loss	\$ (14.5)	\$ (23.1)	\$ 8.6	37.2%
Adjusted EBITDA from continuing operations	\$ 8.6	\$ 15.7	\$ (7.1)	(45.2)%
Loss per share:				
Basic	\$ (0.30)	\$ (0.47)	\$ 0.17	36.2%
Diluted	(0.30)	(0.47)	0.17	36.2%
Loss per share, continuing operations:				
Basic	\$ (0.31)	\$ (0.19)	\$ (0.12)	(63.2)%
Diluted	(0.31)	(0.19)	(0.12)	(63.2)%

<sup>1</sup> Comparative figures have been restated to separately present continuing and discontinued operations.

<sup>2</sup> Includes impairment of non-financial assets and restructuring costs of \$4.5 million and \$3.8 million, respectively, for the third quarter of 2021 (\$0.3 million and nil, respectively, for the third quarter of 2020).

## **Sales**

Sales for the third quarter of 2021 decreased by \$20.2 million, or 11.0%, to \$163.4 million, primarily attributable to a net reduction of 35 stores, as well as store traffic trends that were below pre-pandemic levels in the third quarter of 2021 (see section entitled “Key Business Developments and Subsequent Events”), partially offset by an increase in e-commerce sales.

## **Gross Profit**

Gross profit for the third quarter of 2021 decreased \$15.2 million or 15.8%, to \$81.6 million as compared with \$96.8 million for the third quarter of 2020, primarily attributable to lower sales and a net reduction of 35 stores. Gross profit as a percentage of sales for the third quarter of 2021 decreased to 49.9% from 52.7% for the third quarter of 2020. The decrease is primarily attributable to higher promotional activity during the third quarter of 2021, particularly with respect to men’s and women’s work wear apparel, as customer preferences and habits quickly changed upon the transition to working from home during the pandemic, combined with a negative foreign exchange impact in 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 2021 decreased \$6.8 million or 6.7%, as compared to the same period in the prior year while sales have decreased 11.0%, which is primarily attributable to the following:

- decreased store operating and head office wage costs as a result of the measures taken by the Company under its restructuring plan to mitigate the financial impact from COVID-19 and fewer stores;
- support received from the Canada Emergency Wage Subsidy (“CEWS”) program of \$6.7 million which has been recognized as a reduction of selling, distribution and administrative expenses;
- a decrease of \$6.8 million in depreciation and amortization due primarily to the decrease in the number of stores and related right-of-use assets, the reduction of investments in property and equipment and intangible assets since the outbreak of the pandemic, and the associated impact of the increase in impairment of non-financial assets (see below);

partially offset by,

- \$3.8 million of restructuring costs incurred as a result of the Company’s restructuring, primarily related to a provision for pre-filing input tax credits claimed by the Company on unpaid invoices attributed to the creditors list;
- a \$4.2 million increase in impairment of non-financial assets associated mainly with a reduction of anticipated profitability of certain individual retail store locations; and
- a \$4.3 million increase in overall freight costs incurred due mainly to the growth of e-commerce sales.

## **Net Finance Costs**

Net finance costs were \$1.2 million for the third quarter of 2021 as compared to \$5.4 million for the third quarter of 2020. This change is primarily attributable to all marketable securities having been previously disposed of during fiscal 2020 so there was no income or cost related to a change in fair value in the third quarter of 2021 whereas there was a \$4.4 million net decrease in fair value of marketable securities for the third quarter of 2020.

### ***Income Taxes***

As a result of the uncertainties related to the Company's ability to generate future profitable operations and management's assessment that it is not probable that future taxable profits will be available, the income tax expense for the third quarter of 2021 was impacted by not recognizing deferred tax assets on operating losses carried forward. The tax expense is mainly comprised of the estimated taxes related to a foreign subsidiary.

### ***Net Loss from Continuing Operations***

Net loss from continuing operations for the third quarter of 2021 was \$14.9 million (\$0.31 basic and diluted loss per share) as compared with a \$9.4 million net loss (\$0.19 basic and diluted loss per share) for the third quarter of 2020. The increase in net loss of \$5.5 million is primarily attributable to the decrease in gross profit and an increase in income tax expense, partially offset by a decrease in net finance costs and a decrease in overall operating costs, as noted above.

### ***Adjusted EBITDA from Continuing Operations***

Adjusted EBITDA from continuing operations for the third quarter of 2021 was \$8.6 million as compared with \$15.7 million for the third quarter of 2020. The decrease of \$7.1 million is primarily attributable to the decrease of \$15.2 million in gross profit, partially offset by a reduction in operating costs (excluding restructuring costs, depreciation, amortization and impairment of non-financial assets) of \$8.0 million, as noted above.

### ***Net Earnings (Loss) from Discontinued Operations***

As highlighted in the section entitled "Discontinued Operations", the Company, as part of its restructuring plan, closed the Thyme Maternity and Addition Elle banners.

Net earnings from discontinued operations for the third quarter of 2021 was \$0.4 million as compared to net loss from discontinued operations of \$13.7 million for the third quarter of 2020. The financial information presented within discontinued operations is directly attributable to both brands. All administrative expenses and various selling and distribution expenses from shared, centralized and common functions of the Company are excluded from the determination of net earnings (loss) from discontinued operations.

The increase in net earnings of \$14.1 million is primarily attributable to a goodwill impairment charge of \$11.8 million taken in the third quarter of 2020 and a \$2.3 million increase in net earnings, directly attributable to the discontinued operations during the third quarter of 2021 as compared to the third quarter of 2020.

Further financial information can be found in Note 4 of the the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2021.

## OPERATING RESULTS FOR THE YEAR TO DATE FISCAL 2021 COMPARED TO THE YEAR TO DATE FISCAL 2020

	Year to Date Fiscal 2021	Year to Date Fiscal 2020 <sup>1</sup>	\$ Change	% Change
Sales	\$ 388.7	\$ 521.1	\$ (132.4)	(25.4)%
Cost of goods sold	207.3	245.3	(38.0)	(15.5)%
Gross profit	181.4	275.8	(94.4)	(34.2)%
Gross profit %	46.7%	52.9%		
Selling, distribution and administrative expenses <sup>2</sup>	277.6	298.2	(20.6)	(6.9)%
Results from operating activities	(96.2)	(22.4)	(73.8)	n/a
Net finance income (costs)	7.8	(10.6)	18.4	n/a
Loss before income taxes	(88.4)	(33.0)	(55.4)	n/a
Income tax expense (recovery)	0.7	(7.0)	7.7	n/a
Net loss from continuing operations	(89.1)	(26.0)	(63.1)	n/a
Loss from discontinued operations, net of tax	(72.2)	(9.8)	(62.4)	n/a
Net loss	\$ (161.3)	\$ (35.8)	\$ (125.5)	n/a
Adjusted EBITDA from continuing operations	\$ (5.5)	\$ 41.6	\$ (47.1)	n/a
Loss per share:				
Basic	\$ (3.30)	\$ (0.61)	\$ (2.69)	n/a
Diluted	(3.30)	(0.61)	(2.69)	n/a
Loss per share, continuing operations :				
Basic	\$ (1.82)	\$ (0.44)	\$ (1.38)	n/a
Diluted	(1.82)	(0.44)	(1.38)	n/a

<sup>1</sup> Comparative figures have been restated to separately present continuing and discontinued operations.

<sup>2</sup> Includes impairment of non-financial assets and restructuring costs of \$12.8 million and \$27.3 million, respectively, for the year to date fiscal 2021 (\$2.4 million and nil, respectively, for the year to date fiscal 2020).

### Sales

Sales for the year to date fiscal 2021 decreased by \$132.4 million, or 25.4%, to \$388.7 million, primarily due to the impact from temporary store closures and an overall net reduction of 35 stores, a phased store re-opening (see section entitled “Key Business Developments and Subsequent Events”), as well as store traffic trends that were below pre-pandemic levels in the second and third quarter of 2021, partially offset by an increase in e-commerce sales.

### Gross Profit

Gross profit for the year to date fiscal 2021 decreased \$94.4 million, or 34.2%, to \$181.4 million as compared with \$275.8 million for the year to date fiscal 2020. Gross profit as a percentage of sales for the year to date fiscal 2021 decreased to 46.7% from 52.9% for the year to date fiscal 2020. The decrease both in gross profit and as a percentage of sales is primarily attributable to spring and summer season merchandise selling at larger discounts than usual as customer preferences and habits quickly changed upon the transition to working from home during the pandemic, lower turnover of merchandise as a result of the temporary store closures during a portion of the year to date fiscal 2021 as well as store traffic trends that were below pre-pandemic levels, combined with a negative foreign exchange impact in 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 2021 decreased \$20.6 million or 6.9%, as compared to the same period in the prior year while sales have decreased 25.4%, which is primarily attributable to the following:

- decreased store operating and head office wage costs as a result of the measures taken by the Company under its restructuring plan to mitigate the financial impact from COVID-19;
- support received from the Canada Emergency Wage Subsidy (“CEWS”) program of \$26.3 million recognized as a reduction of selling, distribution and administrative expenses;
- a decrease of \$23.1 million in depreciation and amortization due primarily to the decrease in the number of stores and associated leases, the reduction of investments in property and equipment and intangible assets since the outbreak of the pandemic, and the associated impact of the increase in impairment of non-financial assets (see below);  
partially offset by,
- \$27.3 million of restructuring costs incurred as a result of the Company’s restructuring, primarily related to provisions for disclaimed leases, employee termination costs, inventory cancellation penalties, pre-filing input tax credits claimed by the Company on unpaid invoices attributed to the creditors list and professional fees;
- a \$10.4 million increase in impairment of non-financial assets associated mainly with a reduction of anticipated profitability of certain individual retail store locations; and
- a \$11.4 million increase in overall freight costs incurred due to the growth of e-commerce sales.

## ***Net Finance Income (Costs)***

Net finance income was \$7.8 million for the year to date fiscal 2021 as compared to net finance costs of \$10.6 million for the year to date fiscal 2020. This change is primarily attributable to the following:

- a foreign exchange gain of \$11.7 million for the year to date fiscal 2021 compared to a loss of \$0.5 million for the year to date fiscal 2020, largely attributable to a \$9.7 million realized gain on the maturity and disposal of foreign exchange forward contracts that were no longer being designated as cash flow hedges and to the foreign exchange impact on U.S. denominated monetary assets and liabilities;
- as all marketable securities had been previously disposed of during fiscal 2020, there was no income or cost related to a change in fair value in the year to date fiscal 2021 whereas there was a \$8.3 million net decrease in fair value of marketable securities for the year to date fiscal 2020;
- Interest expense on lease liabilities decreased \$0.2 million during the year to date fiscal 2021 as compared to the year to date fiscal 2020 due mainly to the Company disclaiming leases under the CCAA proceedings; and
- dividend income decreased \$1.4 million for the year to date fiscal 2021 due to no longer having any marketable securities and interest income decreased \$0.9 million due to lower cash balances held throughout the year to date fiscal 2021.

## ***Income Taxes***

As a result of the uncertainties related to the Company’s ability to generate future profitable operations and management’s assessment that it is not probable that future taxable profits will be available, the income tax expense for the year to date fiscal 2021 was impacted by not recognizing deferred tax assets on operating losses carried forward. The tax expense is mainly comprised of the deferred income tax impact related to the reclassification of the accumulated unrealized gain associated with forward contracts from tax expense in other comprehensive income to net earnings and estimated taxes related to a foreign subsidiary.

### ***Net Loss from Continuing Operations***

Net loss from continuing operations for the year to date fiscal 2021 was \$89.1 million (\$1.82 basic and diluted loss per share) as compared with a \$26.0 million net loss (\$0.44 basic and diluted loss per share) for the year to date fiscal 2020. The increase in net loss from continued operations of \$63.1 million is primarily attributable to the decrease in gross profit, increase in restructuring costs and an increase in income tax expense, partially offset by an increase in net finance income and a decrease in overall operating costs, as noted above.

### ***Adjusted EBITDA from Continuing Operations***

Adjusted EBITDA from continuing operations for the year to date fiscal 2021 was a loss \$5.5 million as compared to earnings of \$41.6 million for the year to date fiscal 2020. The decrease of \$47.1 million is primarily attributable to the decrease of \$94.4 million in gross profit, partially offset by a reduction in operating costs (excluding restructuring costs, depreciation, amortization and impairment of non-financial assets) of \$35.1 million and an increase of \$12.2 million in foreign exchange gain, as noted above.

### ***Net Loss from Discontinued Operations***

As highlighted in the section entitled “Discontinued Operations”, the Company, as part of its restructuring plan, closed the Thyme Maternity and Addition Elle banners.

The financial information presented within discontinued operations is directly attributable to both brands. All administrative expenses and various selling and distribution expenses from shared, centralized and common functions of the Company are excluded from the determination of net loss from discontinued operations.

Net loss from discontinued operations for the year to date fiscal 2021 was \$72.2 million as compared to net loss from discontinued operations of \$9.8 million for the year to date fiscal 2020. The increase in net loss of \$62.4 million is primarily attributable to \$51.7 million in restructuring costs, an increase of \$21.1 million in impairment of non-financial assets as a result of the Company’s decision to close the brands, and a decrease in gross margin from the liquidation of merchandise as the banners’ stores closed, partially offset by reduced operating costs due to temporary store closures and the measures taken by the Company to reduce costs. In addition, there was no goodwill impairment charge in year to date 2021 compared to the impairment of goodwill of \$11.8 million for the Addition Elle banner incurred in the year to date fiscal 2020.

Further financial information can be found in Note 4 of the the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2021.

## SUMMARY OF QUARTERLY RESULTS

Due to seasonality and the timing of holidays, as well as the impact of COVID-19, 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 “2021” are to the Company’s fiscal year ending January 30, 2021, “2020” are to the Company’s fiscal year ended February 1, 2020 and “2019” are to the Company’s fiscal year ended February 2, 2019.

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2021 <sup>1</sup>	2020 <sup>1,5</sup>	2021 <sup>1,5</sup>	2020 <sup>1,5</sup>	2021 <sup>1,5</sup>	2020 <sup>1,5</sup>	2020 <sup>1,5</sup>	2019 <sup>5</sup>
Sales	\$ 163.4	\$ 183.6	\$ 144.0	\$ 188.2	\$ 81.3	\$ 149.3	\$ 184.4	\$ 181.2
Net loss from continuing operations	(14.9)	(9.4)	(27.4)	(2.4)	(46.7)	(14.2)	(38.6)	(10.3)
Earnings (loss) from discontinued operations, net of tax	0.4	(13.7)	(44.6)	2.3	(28.0)	1.6	(13.1)	1.4
Net loss	(14.5) <sup>2</sup>	(23.1)	(72.0) <sup>3</sup>	(0.1)	(74.7) <sup>4</sup>	(12.6)	(51.7)	(8.9)
Loss per share								
Basic	\$ (0.30) <sup>2</sup>	\$ (0.47)	\$ (1.47) <sup>3</sup>	\$ (0.00)	\$ (1.53) <sup>4</sup>	\$ (0.20)	\$ (1.06)	\$ (0.14)
Diluted	(0.30) <sup>2</sup>	(0.47)	(1.47) <sup>3</sup>	(0.00)	(1.53) <sup>4</sup>	(0.20)	(1.06)	(0.14)
Loss per share, continuing operations:								
Basic	\$ (0.31)	\$ (0.19)	\$ (0.56)	\$ (0.04)	\$ (0.95)	\$ (0.22)	\$ (0.79)	\$ (0.16)
Diluted	(0.31)	(0.19)	(0.56)	(0.04)	(0.95)	(0.22)	(0.79)	(0.16)

<sup>1</sup> Includes the impact of the adoption of IFRS 16, using the modified retrospective approach, beginning on February 3, 2019 (Fiscal 2020).

<sup>2</sup> Includes the impact of an impairment of non-financial assets of \$5.2 million, restructuring costs of \$4.8 million, partially offset by \$6.8 million of wage subsidy.

<sup>3</sup> Includes the impact of an impairment of non-financial assets of \$9.0 million, restructuring costs of \$74.2 million, partially offset by \$14.8 million of wage subsidy.

<sup>4</sup> Includes the impact of an impairment of non-financial assets of \$20.6 million, additional provision for valuation of inventory of \$18.3 million partially offset by \$11.6 million of a net unrealized foreign exchange gain on reclassification of foreign contracts and \$6.6 million of wage subsidy.

<sup>5</sup> Comparative figures have been restated to separately present continuing and discontinued operations.

## BALANCE SHEET

Selected line items from the Company’s balance sheets as at October 31, 2020 and February 1, 2020 are presented below:

	October 31, 2020	February 1, 2020	\$ Change	% Change
Cash and cash equivalents	\$ 82.7	\$ 89.4	\$ (6.7)	(7.5)%
Trade and other receivables	6.0	6.3	(0.3)	(4.8)%
Inventories	111.9	147.4	(35.5)	(24.1)%
Net derivative financial asset	-	0.8	(0.8)	(100.0)%
Prepaid expenses	30.1	9.4	20.7	n/a
Property and equipment & intangible assets	82.4	108.4	(26.0)	(24.0)%
Right-of-use assets	121.4	198.1	(76.7)	(38.7)%
Trade and other payables	45.7	109.7	(64.0)	(58.3)%
Deferred revenue	10.0	15.0	(5.0)	(33.3)%
Income taxes payable	2.4	3.2	(0.8)	(25.0)%
Lease liabilities (current and non-current)	137.7	213.9	(76.2)	(35.6)%
Liabilities subject to compromise	203.3	-	203.3	n/a
Pension liability	3.6	24.2	(20.6)	(85.1)%

Changes at October 31, 2020 as compared to February 1, 2020 were primarily due to the following:

- cash and cash equivalents decreased \$6.7 million due to the reduction of cash generated from operations primarily by the impact from temporary store closures and the phased store re-opening due to COVID-19, partially offset by controlling expenses and the delay of payments to suppliers while under CCAA protection, the support received from the CEWS program, the continued suspension of any payment of dividends and lower investments made in property and equipment in the year to date fiscal 2021;
- trade and other receivables remained comparable to February 1, 2020 and include Federal wages subsidies of \$2.0 million received subsequent to October 31, 2020, offset by lower credit card trade and wholesale receivables;
- inventories are lower due in part to the Company's restructuring plan to optimize its retail footprint through a reduction in the number of its stores, from the closures of the Addition Elle and Thyme Maternity banners and from an increase in the inventory reserves required on the estimated sell through value of inventory based on customer demand and sales patterns subsequent to the third quarter of 2021;
- there was no net derivative financial asset as at end of the third quarter of 2021 due to the Company's decision to temporarily pause its hedging program following the uncertainties surrounding future inventory purchase commitments;
- the increase of \$20.7 million in prepaid expenses is primarily due to required supplier deposits and prepayments while the Company is under CCAA protection;
- due to the significant reduction in business stemming from COVID-19, the Company cancelled or delayed investments in capital expenditures. For the year to date fiscal 2021, \$4.8 million was invested mainly on store renovations. Depreciation and amortization of \$12.8 million and impairment of \$18.3 million on property and equipment and intangible assets were recognized in the year to date fiscal 2021 (\$23.4 million and \$2.1 million respectively, in the year to date fiscal 2020);
- right-of-use assets represent the right-to-use the retail stores and certain equipment over their lease terms. Right-of-use assets decreased by \$76.7 million, of which \$34.9 million was due to the Company disclaiming leases under the CCAA proceedings. Right-of-use assets increased by lease additions of \$9.2 million in the year to date fiscal 2021. Depreciation and amortization of \$34.5 million in the year to date fiscal 2021 (\$51.8 million in the year to date fiscal 2020) and impairment charges of \$16.5 million on right-of-use assets were recognized in the year to date fiscal 2021 (\$1.1 million in the year to date fiscal 2020). The increase in impairment on right-of-use assets relates to a reduction of anticipated profitability of certain individual retail store locations and in light of the economic uncertainties caused by COVID-19;
- trade and other payables decreased by \$64.0 million primarily due to the reclassification of pre-filing general liabilities under the CCAA process to "liabilities subject to compromise", partially offset by an increase due to the timing of payments. See Note 11 of the unaudited condensed consolidated interim financial statements as at the third quarter of 2021;
- deferred revenue decreased largely due to the timing of gift card redemptions and was partially offset by an increase due to the timing of awards granted under customer loyalty programs. 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;
- income taxes payable decreased primarily due to a payment made during the year to date fiscal 2021;
- lease liabilities represent the present value of the Company's obligations to make lease payments for its store and equipment leases. During the year to date fiscal 2021, lease liabilities decreased

by \$76.2 million, of which \$37.9 million was due to the Company disclaiming leases under the CCAA proceedings and \$9.7 million was reclassified to liabilities subject to compromise. In addition, during the year to date fiscal 2021, lease liabilities increased by lease additions of \$6.6 million and interest expense of \$4.8 million, offset by lease payments of \$40.0 million;

- liabilities subject to compromise consist mainly of amounts owed to creditors (including landlords), ex-employees and beneficiaries of the Company's Supplementary Employee Retirement Pension ("SERP") plan. The amounts are subject to the provisions of the CCAA and are expected to be settled through a future Plan of Arrangement to be approved by the Monitor and the Court. Liabilities subject to compromise represent the Company's best estimate of liabilities that will ultimately be subject to the Plan of Arrangement and compromise with the Company's creditors. See Notes 2 f) iii) and 11 of the unaudited condensed consolidated interim financial statements as at the third quarter of 2021;
- pension liability decreased by \$20.6 million as the pre-petition portion of the pension liability relating to the SERP, which is neither registered nor pre-funded, was reclassified to liabilities subject to compromise, as discussed above.

## OPERATING AND FINANCIAL RISK MANAGEMENT

Detailed descriptions of the Company's operating and financial risks are included in the Company's annual MD&A and Annual Information Form for the fiscal year ended February 1, 2020 (which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)). In addition to the risks described at that time, as highlighted in the section entitled "Key Business Developments and Subsequent Events", as of May 19, 2020, the Company is under CCAA protection.

## LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

As at October 31, 2020, the Company had current liabilities of \$300.2 million (including liabilities subject to compromise of \$203.3 million) (November 2, 2019 - \$184.5 million; February 1, 2020 - \$189.9 million) and cash and cash equivalents of \$82.7 million (November 2, 2019 - \$67.3 million; February 1, 2020 - \$89.4 million) and no long-term debt (other than lease liabilities). Cash and cash equivalents are held in interest bearing accounts mainly with major Canadian financial institutions.

On August 5, 2020, with the approval of the Court, the Company secured interim financing, also referred to as a DIP Loan, with a Canadian financial institution consisting of a revolving credit facility of up to \$60.0 million, including facilities available for securing letters of credit of up to \$5.0 million. The DIP Loan bears interest at the lender's prime rate plus 5.0% per annum on the outstanding principal amount of the DIP Loan. As of the date of this MD&A, the Company has not used the DIP Loan facility, other than for the issuance of letters of credit totalling \$0.2 million. The Company has taken measures to preserve cash to the extent possible, including reducing headcount through layoffs, reducing discretionary expenditures, and deferring capital expenditures, as described above. In order to conserve cash, the Board of Directors of the Company has continued the suspension of the quarterly dividend.

In the year to date fiscal 2021, the Company invested \$4.8 million primarily in store renovations. Given the current economic uncertainty, the Company has cancelled or delayed significant investments in capital expenditures for the remainder of fiscal 2021. The Company expects to invest approximately \$5.5 million in capital expenditures in fiscal 2021.

## 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 1, 2020, except as described herein. As mentioned above, on May 19, 2020, the Company obtained protection under the CCAA, which allows the Company to implement its restructuring plan. Under the supervision of the court-appointed Monitor, liabilities in existence as at May 19, 2020 will be addressed in a Plan of Arrangement to be filed and communicated at a later date. Under the CCAA proceedings, the Company has the ability to disclaim agreements to which the Company is a party, subject to the provisions of the CCAA. During the year to date fiscal 2021, the Company issued disclaimer notices in respect of commercial leases for a certain number of underperforming stores.

## OUTSTANDING SHARE DATA

At December 17, 2020, 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 1,357,000 share options outstanding at an average exercise price of \$8.84. 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 considered 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 contracts with maturities generally not exceeding twelve months and are normally designated as cash flow hedges. Future U.S. dollar denominated purchases, hedged by outstanding forward contracts were no longer expected to occur as a result of the Company's effort to reduce future inventory purchases in response to the uncertainty surrounding COVID-19 and the restructuring plan. As a result, the Company had initially reclassified the accumulated unrealized gain associated with these forward contracts from other comprehensive income to net earnings. During the year to date fiscal 2021, such forward contracts with a notional amount of \$15.0 million U.S. dollars matured and the Company disposed of all remaining forward contracts with a notional amount of \$115.0 million U.S. dollars, resulting in a realized foreign exchange gain of \$9.7 million for the year to date fiscal 2021.

The Company has temporarily paused its hedging program due to the uncertainties surrounding future inventory purchase commitments as a result of COVID-19 and the restructuring plan.

There were no foreign exchange contracts outstanding for the period ended October 31, 2020. For the periods ended November 2, 2019 and February 1, 2020, details of the foreign exchange contracts outstanding are as follows:

	Average Strike Price	Notional Amount in U.S. Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
November 2, 2019	\$ 1.319	\$ 165.0	\$ 0.2	\$ (1.0)	\$ (0.8)
February 1, 2020	\$ 1.318	\$ 175.0	\$ 1.1	\$ (0.3)	\$ 0.8

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 was reducing this risk by dealing only with highly-rated counterparties, normally major Canadian chartered banks.

## 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 1, 2020.

## FINANCIAL INSTRUMENTS

The Company uses its cash resources to fund ongoing working capital needs along with capital expenditures. 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. With the Company temporarily pausing its hedging program, the exposure to risk is augmented subject to the U.S. dollar appreciating in value.

## CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

There have been no significant changes in the key sources of estimation uncertainty and judgments made in relation to the accounting policies applied as disclosed in the Company's annual MD&A for the year ended February 1, 2020 (which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)), except as disclosed in Note 2 f) of the unaudited condensed consolidated interim financial statements for the year to date fiscal 2021.

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A new amendment to standards and interpretations entitled *COVID-19-Related Rent Concessions (Amendment to IFRS 16)* for which earlier adoption was permitted was not applied in preparing the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2021.

Further information on this amendment can be found in Note 3 a) of the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2021.

**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	
		October 31, 2020	November 2, 2019 <sup>(1)</sup>	October 31, 2020	November 2, 2019 <sup>(1)</sup>
Sales		\$ 163,362	\$ 183,603	\$ 388,675	\$ 521,058
Cost of goods sold	7	81,819	86,809	207,316	245,259
Gross profit		81,543	96,794	181,359	275,799
Selling and distribution expenses		78,474	89,991	212,550	261,762
Administrative expenses		8,280	11,617	24,891	34,067
Impairment of non-financial assets	21	4,528	330	12,771	2,386
Restructuring costs	11	3,797	-	27,342	-
Results from operating activities		(13,536)	(5,144)	(96,195)	(22,416)
Finance income	16	201	533	12,112	2,735
Finance costs	16	1,406	5,892	4,373	13,310
Loss before income taxes		(14,741)	(10,503)	(88,456)	(32,991)
Income tax expense (recovery)	15	217	(1,106)	660	(7,031)
Net loss from continuing operations		(14,958)	(9,397)	(89,116)	(25,960)
Earnings (loss) from discontinued operations, net of tax	4	383	(13,700)	(72,181)	(9,806)
Net loss		\$ (14,575)	\$ (23,097)	\$ (161,297)	\$ (35,766)
Loss per share :	17				
Basic		\$ (0.30)	\$ (0.47)	\$ (3.30)	\$ (0.61)
Diluted		(0.30)	(0.47)	(3.30)	(0.61)
Loss per share from continuing operations :	17				
Basic		\$ (0.31)	\$ (0.19)	\$ (1.82)	\$ (0.44)
Diluted		(0.31)	(0.19)	(1.82)	(0.44)

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

(1) Comparative figures have been restated to separately present the results of continuing and discontinued operations. See note 4.

**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	
		October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Net loss		\$ (14,575)	\$ (23,097)	\$ (161,297)	\$ (35,766)
Other comprehensive income (loss)					
Items that are or may be reclassified subsequently to net earnings:					
Cash flow hedges (net of tax of \$273 for the 39 weeks ended October 31, 2020; net of tax of \$91 for the 13 weeks and \$75 for the 39 weeks ended November 2, 2019)	13	-	(249)	(754)	(207)
Foreign currency translation differences	13	28	13	(53)	(35)
Total other comprehensive income (loss)		28	(236)	(807)	(242)
Total comprehensive loss		\$ (14,547)	\$ (23,333)	\$ (162,104)	\$ (38,008)

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	October 31, 2020	November 2, 2019	February 1, 2020
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	5	\$ 82,717	\$ 67,346	\$ 89,410
Trade and other receivables	6	6,018	7,801	6,313
Derivative financial asset	19	-	252	1,124
Inventories	7	111,853	175,254	147,428
Prepaid expenses		30,074	15,163	9,441
Total Current Assets		<b>230,662</b>	<b>265,816</b>	<b>253,716</b>
<b>NON-CURRENT ASSETS</b>				
Property and equipment	21	70,680	89,463	88,090
Intangible assets		11,714	19,546	20,267
Right-of-use assets	8,21	121,441	193,797	198,097
Deferred income taxes		-	30,582	-
Total Non-Current Assets		<b>203,835</b>	<b>333,388</b>	<b>306,454</b>
<b>TOTAL ASSETS</b>		<b>\$ 434,497</b>	<b>\$ 599,204</b>	<b>\$ 560,170</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables	9	\$ 45,663	\$ 111,294	\$ 109,674
Derivative financial liability	19	-	1,023	348
Deferred revenue	10	10,010	10,340	15,042
Income taxes payable		2,418	344	3,207
Current portion of lease liabilities	8	38,764	61,509	61,618
Liabilities subject to compromise	11	203,332	-	-
Total Current Liabilities		<b>300,187</b>	<b>184,510</b>	<b>189,889</b>
<b>NON-CURRENT LIABILITIES</b>				
Lease liabilities	8	98,963	141,704	152,251
Pension liability	12	3,627	21,089	24,213
Total Non-Current Liabilities		<b>102,590</b>	<b>162,793</b>	<b>176,464</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	13	27,406	27,406	27,406
Contributed surplus		10,290	10,277	10,283
(Deficit) retained earnings		(4,942)	215,744	156,355
Accumulated other comprehensive loss	13	(1,034)	(1,526)	(227)
Total Shareholders' Equity		<b>31,720</b>	<b>251,901</b>	<b>193,817</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 434,497</b>	<b>\$ 599,204</b>	<b>\$ 560,170</b>

Going concern, impact of COVID-19 and CCAA proceedings (note 2(b))

Subsequent events (note 22)

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 (Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
<b>Balance as at February 2, 2020</b>		\$ 27,406	\$ 10,283	\$ 156,355	\$ (227)	\$ 193,817
Net loss		-	-	(161,297)	-	(161,297)
Total other comprehensive loss	13	-	-	-	(807)	(807)
<b>Total comprehensive loss for the period</b>		-	-	(161,297)	(807)	(162,104)
Share-based compensation costs	14	-	7	-	-	7
<b>Total contributions by owners of the Company</b>		-	7	-	-	7
<b>Balance as at October 31, 2020</b>		\$ 27,406	\$ 10,290	\$ (4,942)	\$ (1,034)	\$ 31,720
<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)		-	-	767	-	767
<b>Restated balance as at February 3, 2019</b>		38,397	10,245	293,006	(1,284)	340,364
Net loss		-	-	(35,766)	-	(35,766)
Total other comprehensive loss	13	-	-	-	(242)	(242)
<b>Total comprehensive loss for the period</b>		-	-	(35,766)	(242)	(36,008)
Share-based compensation costs	14	-	32	-	-	32
Dividends	13	-	-	(8,776)	-	(8,776)
Purchase of Class A non-voting shares pursuant to substantial issuer bid		(10,991)	-	-	-	(10,991)
Excess of purchase price of Class A non-voting shares over carrying amount		-	-	(32,720)	-	(32,720)
<b>Total (distributions to) contributions by owners of the Company</b>		(10,991)	32	(41,496)	-	(52,455)
<b>Balance as at November 2, 2019</b>		\$ 27,406	\$ 10,277	\$ 215,744	\$ (1,526)	\$ 251,901

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	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss	\$ (14,575)	\$ (23,097)	\$ (161,297)	\$ (35,766)
Adjustments for:				
Depreciation and amortization	14,829	24,971	47,323	75,158
Impairment of non-financial assets	21 5,230	957	34,789	3,245
Impairment of goodwill	-	11,843	-	11,843
Share-based compensation costs	14 2	(124)	7	(57)
Net change in fair value of marketable securities	16 -	4,409	-	8,264
Net change in transfer of realized loss (gain) on cash flow hedges to inventory	-	116	(250)	1,423
Foreign exchange gain	(2,086)	(248)	(1,281)	(4,343)
Gain on lease re-measurements due to restructuring	8 (3,130)	-	(6,011)	-
Interest on lease liabilities	16 1,408	1,832	4,831	5,696
Interest and dividend income, net	16 (146)	(501)	(372)	(2,735)
Income tax expense (recovery)	217	(1,786)	740	(6,285)
	<b>1,749</b>	<b>18,372</b>	<b>(81,521)</b>	<b>56,443</b>
Changes in:				
Trade and other receivables	6,949	(1,206)	153	381
Inventories	(3,924)	(9,744)	35,575	(28,445)
Prepaid expenses	(8,212)	1,114	(20,633)	(1,585)
Trade and other payables	10,829	(4,115)	(64,344)	14,272
Liabilities subject to compromise	11 8,065	-	193,644	-
Pension liability	12 185	(102)	(20,586)	45
Deferred revenue	(2,422)	(2,355)	(5,032)	(4,869)
Cash from operating activities	<b>13,219</b>	1,964	<b>37,256</b>	36,242
Interest received	154	377	514	1,443
Dividends received	-	288	-	1,582
Income taxes received	771	255	883	267
Income taxes paid	(198)	(103)	(2,139)	(3,800)
Net cash flows from operating activities	<b>13,946</b>	2,781	<b>36,514</b>	35,734
<b>CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES</b>				
Additions to property and equipment and intangible assets, net	18 (1,407)	(5,256)	(4,794)	(17,397)
Proceeds on sale of marketable securities	-	41,425	-	41,425
Cash flows (used in) from investing activities	<b>(1,407)</b>	36,169	<b>(4,794)</b>	24,028
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>				
Dividends paid	13 -	(2,442)	-	(8,776)
Payment of lease liabilities	(11,510)	(18,982)	(39,951)	(56,755)
Purchases of Class A non-voting shares for cancellation	13 -	-	-	(43,711)
Cash flows used in financing activities	<b>(11,510)</b>	(21,424)	<b>(39,951)</b>	(109,242)
<b>FOREIGN EXCHANGE GAIN ON CASH HELD IN FOREIGN CURRENCY</b>				
	<b>2,343</b>	258	<b>1,538</b>	4,308
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
	<b>3,372</b>	17,784	<b>(6,693)</b>	(45,172)
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF THE PERIOD</b>				
	<b>79,345</b>	49,562	<b>89,410</b>	112,518
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF THE PERIOD</b>				
	<b>\$ 82,717</b>	\$ 67,346	<b>\$ 82,717</b>	\$ 67,346

Supplementary cash flow information (note 18)

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 1, 2020.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on December 17, 2020.

**b) Going Concern, impact of COVID-19 and CCAA Proceedings**

Since the coronavirus disease (COVID-19) was declared a pandemic on March 11, 2020 by the *World Health Organization*, there have been significant impacts for the Company. The measures adopted by the Federal and Provincial governments in order to mitigate the spread of COVID-19 required the Company to close all of its retail locations across the country effective March 17, 2020. During the period of closure, the Company’s only sales were derived from its e-commerce channel. At the end of May 2020, the Company began re-opening its retail stores across Canada in accordance with Federal, Provincial and Municipal regulations surrounding de-confinement. Subsequent to October 31, 2020, certain provinces mandated renewed lockdown measures to mitigate the spread of COVID-19 forcing the temporary closure of retail stores in these provinces. See note 22.

### *CCAA Proceedings*

On May 19, 2020, the Company obtained an initial order (the “Order”) from the Superior Court of Quebec (the “Court”) to seek protection from creditors under the Companies’ Creditors Arrangement Act (the “CCAA”). Under the terms of the Order, Ernst & Young Inc. has been appointed as the monitor (the “Monitor”). The CCAA process allows the Company to implement an operational and commercial restructuring plan to re-position the Company for long-term success (the “restructuring plan”). See note 11.

On May 29, 2020, the Company obtained an extension of the Order from the Court for an additional stay period to July 27, 2020. On July 27, 2020, the Court ordered a first extension of the stay period to October 16, 2020. On October 16, 2020, the Court ordered a second extension of the stay period to January 22, 2021.

On August 20, 2020, a claims process order (the “claims process”) was approved by the Court. The claims process was initiated on September 10, 2020 and ended October 21, 2020 (“claims bar date”) as described in note 2(f)(iii).

### *Restructuring Plan*

On June 1, 2020, the Company announced, as part of its restructuring plan and as approved by the Monitor, the closure of the Thyme Maternity and Addition Elle brands. The restructuring plan led to the closure of all retail stores and e-commerce for both brands and to the termination of approximately 1,600 employees in its retail locations and head office. See notes 4 and 11.

In accordance with the policies of the Toronto Stock Exchange (the “TSX”), trading in the Company’s Common shares and Class A non-voting shares was suspended on May 19, 2020 and the Company’s shares were delisted from the TSX effective at the close of business on July 29, 2020. On September 3, 2020, the Company’s shares began trading on the TSX Venture Exchange.

### *Going Concern*

For the 39 weeks ended October 31, 2020, the Company incurred a net loss of \$161,297. The Company’s current liabilities total \$300,187 and exceed current assets of \$230,662 as at October 31, 2020. On August 5, 2020 the Company secured interim financing (“DIP Loan”) of up to \$60,000 with a Canadian financial institution, as described in note 20.

The deterioration in the Company’s financial position since the end of the fiscal year ended February 1, 2020, the Company’s liquidity position as of the date of the approval of these condensed consolidated interim financial statements and the unpredictability of the outcome of the matters arising from the CCAA proceedings, indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

These condensed consolidated interim financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern, management must take into account all available information about the future, including estimated future cash flows, for a period of at least twelve months following the end of the reporting period. These consolidated financial statements as at and for the 39 weeks ended October 31, 2020 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

### **c) Basis of Measurement**

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

- lease liabilities are initially measured at the present value of the lease payments that are not paid at the lease commencement date;
- 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*.

### **d) 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. Due to the impact of COVID-19, sales are not expected to follow historical patterns.

### **e) 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.

### **f) 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. Management has made significant judgments in connection with the potential impact of COVID-19 on the Company's reported assets, liabilities, revenue and expenses, and on the related disclosures, using estimates and assumptions, which are subject to significant uncertainties. The extent to which COVID-19 will continue to impact the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. These future developments include the duration, severity and scope of the COVID-19 outbreak, the measures taken by various government authorities to contain it and the reaction of the general public to, and compliance with, such containment measures. Accordingly, actual results could differ materially from those estimates and assumptions made by management.

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 uncertainty were the same as those applied and described in the Company's audited annual consolidated financial statements for the year ended February 1, 2020, except as noted below. The following were updated to reflect the continued and uncertain economic impact of COVID-19 which may influence consumer shopping behavior and future consumer demand, as well as the uncertain outcome of the CCAA proceedings.

## *Critical Judgements and Key Sources of Estimation Uncertainty*

### **(i) Inventories**

In determining the net realizable value of inventory, estimates are required in relation to forecasted sales and inventory balances. COVID-19 increases the risk of uncertainty related to these estimates because they are normally based on a historical pattern of sales. The unprecedented impact of COVID-19 required management to apply a higher degree of judgement in determining the estimates to set up provisions for merchandise in inventory that may have to be sold below cost.

### **(ii) Impairment of Non-Financial Assets**

Significant management estimates are required to determine the recoverable amount of the cash-generating unit (“CGU”) including estimates of fair value, selling costs or the discounted future cash flows related to the CGU. COVID-19 increases the risk of uncertainty surrounding management’s estimates. Differences in estimates could affect whether property and equipment, right-of use assets and intangible assets are in fact impaired and the dollar amount of that impairment.

### **(iii) Liabilities subject to compromise**

On August 20, 2020, the Court rendered a claims process order establishing the rules for the creditors to submit a proof of claim. This order allowed creditors to submit their claims from September 10, 2020 until October 21, 2020 (“claims bar date”). All claims are determined as at May 19, 2020, the date of the Initial Order and therefore, the beginning of the CCAA process. The Monitor initiated the process for the identification, resolution and barring of claims in connection with the CCAA proceedings. As of the date of the approval of these condensed consolidated interim financial statements, it is currently not possible to determine the quantum of the claims that will ultimately be allowed by the Court, as the Monitor’s claims identification, resolution and barring process is not completed and may take considerable time to resolve. Therefore, amounts identified as liabilities subject to compromise were based on the information available, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Liabilities subject to compromise represent the Company’s best estimate of liabilities that will ultimately be subject to the plan of arrangement and compromise to the Company’s creditors.

### 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 1, 2020 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

#### *Discontinued operations*

A discontinued operation is a component of the Company's activities that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

#### *Government assistance*

Government assistance is recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and the Company is reasonably certain based on management's judgment that the government grant will be received. Government assistance, including grants, related to operating expenses is accounted for as a reduction to the related expenses. Government assistance, including monetary and nonmonetary grants related to the acquisition of property, plant and equipment, is accounted for as a reduction of the cost of the related property, plant and equipment, and is recognized in net earnings using the same methods, periods and rates as for the related property, plant and equipment.

#### **(a) New standards and interpretations not yet adopted:**

##### **COVID-19-Related Rent Concessions**

On May 28, 2020, the IASB issued *COVID-19-Related Rent Concessions (Amendment to IFRS 16)*. The amendment is effective for annual periods beginning on or after June 1, 2020. Early adoption is permitted. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. Rent concessions granted from landlords during the 13 and 39 weeks ended October 31, 2020 following re-negotiation of certain leases did not meet the criteria required from *COVID-19-Related Rent Concessions (Amendment to IFRS 16)*. As a result, the practical expedient was not applied, and the amended contracts were accounted for as modified leases. See note 8.

#### 4. DISCONTINUED OPERATIONS

On June 1, 2020, the Company announced, as part of its restructuring plan and as approved by the Monitor, the closure of the Thyme Maternity and Addition Elle brands. This announcement led to the planned closure of all retail stores and e-commerce channels related to these brands.

The financial information presented below is directly attributable to both brands. All administrative expenses and various selling and distribution expenses from shared, centralized and common functions of the Company are excluded from the determination of discontinued operations.

The operating results are presented as discontinued operations and prior periods have been restated:

##### Earnings (loss) from discontinued operations

	For the 13 weeks ended		For the 39 weeks ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Sales	\$ 1,379	\$ 38,733	\$ 74,086	\$ 119,251
Cost of goods sold <sup>(1)</sup>	157	19,635	51,684	54,690
Gross profit	1,222	19,098	22,402	64,561
Selling and distribution expenses <sup>(2)(3)</sup>	(887)	20,659	20,307	59,817
Impairment of non-financial assets <sup>(4)</sup>	702	627	22,018	859
Restructuring costs (note 11) <sup>(5)</sup>	1,022	-	51,720	-
Impairment of goodwill <sup>(6)</sup>	-	11,843	-	11,843
Results from operating activities	385	(14,031)	(71,643)	(7,958)
Finance costs <sup>(7)</sup>	2	349	458	1,102
Earnings (loss) before income taxes	383	(14,380)	(72,101)	(9,060)
Income tax (recovery) expense	-	(680)	80	746
Net earnings (loss) income from discontinued operations	\$ 383	\$ (13,700)	\$ (72,181)	\$ (9,806)
Earnings (loss) per share, discontinued operations :				
Basic	\$ 0.01	\$ (0.28)	\$ (1.48)	\$ (0.17)
Diluted	0.01	(0.28)	(1.48)	(0.17)

(1) During the 13 and 39 weeks ended October 31, 2020, inventories recognized as cost of goods sold amounted to \$1,811 and \$50,168, respectively (\$18,740 and \$52,742 for the 13 and 39 weeks ended November 2, 2019). In addition, for the 13 and 39 weeks ended October 31, 2020, the Company recorded a reversal of \$1,654 and a loss of \$1,516, respectively, (losses of \$895 and \$1,948 for the 13 and 39 weeks ended November 2, 2019) on write-downs of inventories as a result of net realizable value being lower than cost which were recognized in cost of goods sold.

(2) The Company recognized grant income in connection with the Canada Emergency Wage Subsidy of \$91 and \$1,979 as a reduction of selling and distribution expenses for the 13 and 39 weeks ended October 31, 2020, respectively.

(3) During the 13 weeks ended October 31, 2020, certain selling and distribution expenses were reclassified between continuing and discontinued operations, resulting is a recovery of \$887.

- (4) As a result of the adverse impact of COVID-19 and as part of the restructuring plan resulting in the closure of Addition Elle and Thyme Maternity, the Company performed an impairment test for its non-financial assets. The test resulted in the recognition of impairment losses related to right-of-use assets of \$1,007 and \$8,826 for the 13 and 39 weeks ended October 31, 2020, respectively, as well as impairment reversals of \$305 and impairment losses of \$10,102 related to property and equipment and of impairment losses of nil and \$3,090 related to intangible assets for the 13 and 39 weeks ended October 31, 2020, respectively (nil and \$149 related to right-of-use assets, \$627 and \$710 related to property and equipment and nil to intangible assets for the 13 and 39 weeks ended November 2, 2019, respectively). See note 21 for methodology and assumptions used in the impairment test.
- (5) During the 13 and 39 weeks ended October 31, 2020, right-of-use assets were reduced by \$805 and \$28,455 and lease liabilities were reduced by nil and \$31,478, respectively. A corresponding gain of \$805 and \$3,023 was recognized in restructuring costs for the 13 and 39 weeks ended October 31, 2020, respectively, as lease modifications in connection with leases that were disclaimed as part of the CCAA proceedings (nil for the 13 and 39 weeks ended November 2, 2019). See note 8.
- (6) As at November 2, 2019, goodwill was allocated to one of the groups of cash-generating units (“CGUs”), the Addition Elle banner. The decline in Addition Elle profitability triggered an interim impairment test of goodwill and 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) Finance costs represent interest expense on lease liabilities.

The following table presents the effect of discontinued operations on the condensed consolidated interim statements of cash flows:

#### Net cash flows (used in) from discontinued operations

	For the 13 weeks ended		For the 39 weeks ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Net cash flow (used in) from operating activities	\$ (4,140)	\$ (1,168)	\$ (28,077)	\$ 13,703
Net cash flow used in investing activities	-	(1,230)	(762)	(3,009)
Net cash flow used in financing activities	(482)	(3,720)	(5,903)	(11,345)
Net cash flow for the period	\$ (4,622)	\$ (6,118)	\$ (34,742)	\$ (651)

#### 5. CASH AND CASH EQUIVALENTS

	October 31, 2020	November 2, 2019	February 1, 2020
Cash	\$ 79,967	\$ 63,829	\$ 86,432
Short-term deposits <sup>(1)</sup>	-	3,517	2,978
Restricted cash <sup>(2)</sup>	2,750	-	-
	\$ 82,717	\$ 67,346	\$ 89,410

- (1) The Company’s cash held with banks bears interest at variable rates. Short-term deposits were bearing interest at 0.6% and 0.5% as at November 2, 2019 and February 1, 2020, respectively.
- (2) Restricted cash represents cash held in trust by a Canadian financial institution as security held on a standby letter of credit.

## **6. TRADE AND OTHER RECEIVABLES**

Trade and other receivables include an amount of \$1,961 related to government grants receivable. The Government of Canada made available to businesses affected by COVID-19 the Canada Emergency Wage Subsidy (“CEWS”), which allows companies to claim a portion of employee wages when eligibility requirements are met. As at October 31, 2020, the Company believed that it qualified to receive the CEWS and that there was reasonable assurance that the amount would be received from the government. The Company also intends to apply for the CEWS in subsequent application periods, where the qualification criteria continues to be met.

The Company recognized grant income of \$6,183 and \$24,005 as a reduction of selling and distribution expenses and \$542 and \$2,259 as a reduction of administrative expenses for the 13 and 39 weeks ended October 31, 2020, respectively.

## **7. INVENTORIES**

During the 13 and 39 weeks ended October 31, 2020, inventories recognized as cost of goods sold from continuing operations amounted to \$78,775 and \$195,785 (\$84,651 and \$240,953 for the 13 and 39 weeks ended November 2, 2019). In addition, for the 13 and 39 weeks ended October 31, 2020, the Company recorded \$3,044 and \$11,531, respectively, (\$2,158 and \$4,306 for the 13 and 39 weeks ended November 2, 2019) of write-downs of inventories as a result of net realizable value being lower than cost which were recognized in cost of goods sold. No inventory write-downs recognized in previous periods were reversed for the 13 and 39 weeks ended November 2, 2019.

Included in inventories is a return asset for the right to recover returned goods for \$1,988 as at October 31, 2020 (November 2, 2019 - \$2,511; February 1, 2020 - \$1,898).

## **8. LEASES**

During the 39 weeks ended October 31, 2020, in connection with the CCAA proceedings, the Company issued disclaimer notices related to various leases of its retail locations as part of its restructuring plan as described in note 11. For the 13 and 39 weeks ended October 31, 2020, the Company accounted for such disclaimed leases as lease modifications and consequently reduced its right-of-use assets by \$1,114 and \$6,300 and reduced its lease liabilities by \$921 and \$8,121, respectively. The resulting gain on lease re-measurements of \$1,158 and \$1,821 was recognized in restructuring costs from continuing operations for the 13 and 39 weeks ended October 31, 2020, respectively.

Included in liabilities subject to compromise is a provision for the Company’s best estimate of claims from landlords for disclaimed leases that will ultimately be settled subject to the plan of arrangement and compromise with the Company’s landlords. See note 11.

During the 13 and 39 weeks ended October 31, 2020, the Company reduced its right-of-use assets and lease liabilities by \$19,072 and \$20,239, respectively and recognized a gain on lease re-measurements of \$1,167 in restructuring costs from continuing operations related to leases re-negotiated with landlords as part of its restructuring plan. Subsequent to period end, the Company continued re-negotiating leases with landlords, the effect of those modifications will be reflected in the financial statements during the periods into which modified contracts are signed by both parties.

## 9. TRADE AND OTHER PAYABLES

	<u>October 31, 2020</u>	<u>November 2, 2019</u>	<u>February 1, 2020</u>
Trade payables	\$ 4,856	\$ 77,657	\$ 75,132
Personnel liabilities	14,511	21,826	20,441
Other non-trade payables	21,540	5,954	9,367
Refund liability	4,313	5,287	3,489
Payables relating to premises	443	570	1,245
	<u>\$ 45,663</u>	<u>\$ 111,294</u>	<u>\$ 109,674</u>

## 10. DEFERRED REVENUE

	<u>October 31, 2020</u>	<u>November 2, 2019</u>	<u>February 1, 2020</u>
Loyalty points and awards granted under loyalty programs	\$ 988	\$ 1,292	\$ 847
Unredeemed gift cards	9,022	9,048	14,195
	<u>\$ 10,010</u>	<u>\$ 10,340</u>	<u>\$ 15,042</u>

## 11. LIABILITIES SUBJECT TO COMPROMISE AND RESTRUCTURING COSTS

As at October 31, 2020, in connection with the CCAA proceedings, the Company identified the following unsecured liabilities subject to compromise:

Trade payables and accruals	\$ 76,832
Lease liabilities	9,686
Provision for disclaimed leases	52,055
Pension liabilities (note 12)	20,857
Termination benefit liabilities	12,687
Sales taxes payable	5,068
Other non-trade payables	26,147
	<u>\$ 203,332</u>

The liabilities that are not subject to the CCAA proceedings are excluded from the liabilities subject to compromise.

### *Restructuring costs*

As described in note 2(b), as part of its restructuring plan and as approved by the Monitor, the Company closed all retail stores and e-commerce for Thyme Maternity and Addition Elle and terminated approximately 1,600 employees at its retail locations and head office. In connection with the restructuring plan and the CCAA proceedings, the following restructuring costs were recognized:

	<b>13 weeks ended October 31, 2020</b>		
	<b>Combined</b>	<b>Continuing</b>	<b>Discontinued</b>
Provision for disclaimed leases <sup>(1)</sup>	\$ 116	\$ 502	\$ (386)
Gain on lease re-measurements (notes 4 and 8)	(3,130)	(2,325)	(805)
Termination benefits <sup>(1)</sup>	780	1,255	(475)
Inventory purchases cancellation costs and other expenses	5,638	2,950	2,688
Legal, Monitor and other consulting fees	924	924	-
DIP lender fees	491	491	-
	<b>\$ 4,819</b>	<b>\$ 3,797</b>	<b>\$ 1,022</b>

- (1) During the 13 weeks ended October 31, 2020, certain restructuring costs were reclassified between continuing and discontinued operations.

	<b>39 weeks ended October 31, 2020</b>		
	<b>Combined</b>	<b>Continuing</b>	<b>Discontinued</b>
Provision for disclaimed leases	\$ 52,455	\$ 9,726	\$ 42,729
Gain on lease re-measurements (notes 4 and 8)	(6,011)	(2,988)	(3,023)
Termination benefits	12,687	7,266	5,421
Inventory purchases cancellation costs and other expenses	15,849	9,256	6,593
Legal, Monitor and other consulting fees	3,591	3,591	-
DIP lender fees	491	491	-
	<b>\$ 79,062</b>	<b>\$ 27,342</b>	<b>\$ 51,720</b>

## **12. PENSION LIABILITY**

The Company sponsors a Supplemental Executive Retirement Plan (“SERP”) for certain senior executives, which is neither registered nor pre-funded. In connection with CCAA proceedings, the pre-petition portion of the pension liability related to SERP of \$20,857 has been reclassified to liabilities subject to compromise. See note 11.

### 13. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

	For the 39 weeks ended			
	October 31, 2020		November 2, 2019	
	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	<b>13,440</b>	<b>\$ 482</b>	13,440	\$ 482
<b>Class A non-voting shares</b>				
Balance at beginning of the period	<b>35,427</b>	<b>26,924</b>	49,890	37,915
Purchase of shares under substantial issuer bid	-	-	(14,463)	(10,991)
Balance at end of the period	<b>35,427</b>	<b>26,924</b>	35,427	26,924
Total share capital	<b>48,867</b>	<b>\$ 27,406</b>	48,867	\$ 27,406

#### *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.

*Accumulated Other Comprehensive Income (“AOCI”)*

AOCI is comprised of the following:

	<b>Cash Flow Hedges</b>	<b>Foreign Currency Translation Differences</b>	<b>Total AOCI</b>
Balance at February 2, 2020	\$ 754	\$ (981)	\$ (227)
Net change in fair value of cash flow hedges (net of tax of \$3,229)	8,815	-	8,815
Transfer of realized loss on cash flow hedges to inventory (net of tax of \$79)	218	-	218
Reclassification of cash flow hedges from OCI to foreign exchange gain within finance income (net of tax of \$3,583) (note 15)	(9,787)	-	(9,787)
Change in foreign currency translation differences	-	(53)	(53)
Balance at October 31, 2020	<u>\$ -</u>	<u>\$ (1,034)</u>	<u>\$ (1,034)</u>
Balance at February 3, 2019	\$ (352)	\$ (932)	\$ (1,284)
Net change in fair value of cash flow hedges (net of tax of \$496)	649	-	649
Transfer of realized gain on cash flow hedges to inventory (net of tax of \$480)	(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>

*Dividends*

The following dividends were declared and paid by the Company:

	<b>For the 13 weeks ended</b>		<b>For the 39 weeks ended</b>	
	<b>October 31, 2020</b>	<b>November 2, 2019</b>	<b>October 31, 2020</b>	<b>November 2, 2019</b>
Common shares and Class A non-voting shares	\$ -	\$ 2,442	\$ -	\$ 8,776
Dividend per share	<u>\$ -</u>	<u>\$ 0.05</u>	<u>\$ -</u>	<u>\$ 0.15</u>

## 14. SHARE-BASED PAYMENTS

No share option awards or share appreciation rights were granted during the 13 and 39 weeks ended October 31, 2020 and November 2, 2019. For the 13 and 39 weeks ended October 31, 2020, the Company recognized share-based compensation costs related to previously-granted share options of \$2 and \$7, respectively (\$3 and \$32 for the 13 and 39 weeks ended November 2, 2019, respectively).

No performance share units (“PSUs”) were granted during the 13 and 39 weeks ended October 31, 2020 (440,000 PSUs at a weighted average share price of \$3.23 during the 39 weeks ended November 2, 2019). No share-based compensation costs related to PSUs were recognized for the 13 and 39 weeks ended October 31, 2020. The Company recognized a share-based compensation recovery related to PSUs of \$95 and \$66 in selling and distribution expenses and a recovery of \$32 and \$23 in administrative expenses for 13 and 39 weeks ended November 2, 2019, respectively.

## 15. 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. 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. Due to the uncertainties related to the Company’s ability to generate future profitable operations, the Company has determined that it is not probable that future taxable profits will be available against which deferred tax assets can be utilized. Accordingly, no deferred tax assets have been recognized in the condensed consolidated interim financial statements.

For the 39 weeks ended October 31, 2020, the current tax expense is mainly comprised of the deferred income tax impact related to the reclassification of the accumulated unrealized gain associated with forward contracts from other comprehensive income to net earnings combined with the recognition of income tax expense related to a foreign subsidiary. See note 13 and 19.

## 16. FINANCE INCOME AND FINANCE COSTS

	For the 13 weeks ended		For the 39 weeks ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Dividend income from marketable securities	\$ -	\$ 138	\$ -	\$ 1,427
Interest income	146	363	372	1,308
Foreign exchange gain <sup>(1)</sup>	55	32	11,740	-
Finance income	201	533	12,112	2,735
Interest expense on lease liabilities	1,406	1,483	4,373	4,594
Net change in fair value of marketable securities <sup>(2)</sup>	-	4,409	-	8,264
Foreign exchange loss	-	-	-	452
Finance costs	1,406	5,892	4,373	13,310
Net finance (costs) income	\$ (1,205)	\$ (5,359)	\$ 7,739	\$(10,575)

<sup>(1)</sup> Included in foreign exchange gain for the 39 weeks ended October 31, 2020, is a realized gain of \$9,741 on maturity and disposal of foreign exchange contracts (nil for the 39 weeks ended November 2, 2019). See note 19.

<sup>(2)</sup> During the fiscal year ended February 1, 2020, the Company disposed of its marketable securities.

## 17. LOSS PER SHARE

The number of shares (in thousands) used in the basic and diluted loss per share and basic and diluted loss per share from continuing and discontinued operations calculations is as follows:

	For the 13 weeks ended		For the 39 weeks ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Weighted average number of shares - basic	<b>48,867</b>	48,867	<b>48,867</b>	58,350
Weighted average number of shares - diluted	<b>48,867</b>	48,867	<b>48,867</b>	58,350

All share options were excluded from the calculation of diluted loss per share for the 13 and 39 weeks ended October 31, 2020 and November 2, 2019 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.

## 18. SUPPLEMENTARY CASH FLOW INFORMATION

	October 31, 2020	November 2, 2019	February 1, 2020
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	\$ 1,715	\$ 717	\$ 1,382

## 19. 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 at October 31, 2020 (other than those included below for previous periods and liabilities subject to compromise) approximates their respective carrying amounts as at the reporting dates because of the short-term nature of those financial instruments. The fair value of the liabilities subject to compromise is not determinable at the date of these condensed consolidated interim financial statements.

	November 2, 2019						
	Carrying Amount				Fair Value		
	Fair Value through Profit or Loss	Fair Value of Hedging Instruments	Amortized Cost	Total	Level 1	Level 2	Total
<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

	February 1, 2020						
	Carrying Amount				Fair Value		
	Fair Value through Profit or Loss	Fair Value of Hedging Instruments	Amortized Cost	Total	Level 1	Level 2	Total
<b>Financial assets measured at fair value through profit or loss</b>							
Derivative financial asset	\$ -	\$ 1,124	\$ -	\$ 1,124	\$ -	\$ 1,124	\$ 1,124
<b>Financial liabilities measured at fair value through profit or loss</b>							
Derivative financial liability	\$ -	\$ 348	\$ -	\$ 348	\$ -	\$ 348	\$ 348

There were no transfers between levels of the fair value hierarchy for the periods ended November 2, 2019 and February 1, 2020.

### Derivative financial instruments

The Company had entered into forward contracts with its banks on the U.S. dollar. These foreign exchange contracts extended over a period normally not exceeding twelve months and were normally designated as cash flow hedges to mitigate foreign exchange risk that is part of its U.S. dollar purchases. The Company determined that it no longer met the criteria for these purchases as a result of the Company's effort to reduce future inventory purchases in response to the uncertainty surrounding COVID-19 and the restructuring plan (notes 2(b) and 11). During the 39 weeks ended October 31, 2020, \$130,000 of future U.S. dollar denominated purchases, hedged by outstanding forward contracts with an accumulated gain of \$9,787 (net of tax of \$3,583), were no longer expected to occur. As a result, the Company is no longer designating these forward contracts for hedge accounting and has reclassified the accumulated unrealized gain associated with these forward contracts from other comprehensive income to net earnings as part of finance income (notes 13 and 16) during the 39 weeks ended October 31, 2020.

During the 39 weeks ended October 31, 2020, the Company has temporarily paused its hedging program due to the uncertainties surrounding future inventory purchase commitments as a result of COVID-19 and the restructuring plan (notes 2(b) and 11). During the 39 weeks ended October 31, 2020, forward contracts with a notional amount of \$15,000 U.S. dollars matured and the Company disposed of all remaining outstanding forward contracts with a notional amount of \$115,000 U.S. dollars, resulting in a foreign exchange gain of \$9,741 recognized directly to net earnings as part of finance income. See note 16.

Details of foreign exchange contracts outstanding:

	<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>
October 31, 2020	\$ -	\$ -	\$ -	\$ -	\$ -
November 2, 2019	\$ 1.319	\$ 165,000	\$ 252	\$ (1,023)	\$ (771)
February 1, 2020	\$ 1.318	\$ 175,000	\$ 1,124	\$ (348)	\$ 776

## 20. 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 39 weeks ended October 31, 2020 from those described in the Company's audited annual consolidated financial statements for the year ended February 1, 2020 with exception to the following:

### *Liquidity Risk*

For the 39 weeks ended October 31, 2020, the Company incurred a net loss of \$161,297. The Company's current liabilities total \$300,187 (of which \$203,332 is subject to compromise in connection with CCAA proceedings (note 11)) as at October 31, 2020 and current liquid assets consisting of cash and cash equivalents total \$82,717. During the 39 weeks ended October 31, 2020, the Company's lenders terminated the maximum overdraft protection of \$25,000 and the facilities available for letters of credit of \$40,000 had been reduced to a maximum of \$1,000. Given the deterioration in the Company's financial position since the end of the fiscal year ended February 1, 2020, the effective elimination of its previous credit facilities and the continued uncertainty surrounding COVID-19, on May 19, 2020, the Company obtained an initial order (the "Order") to seek protection from creditors under the CCAA.

On August 5, 2020, the Company secured interim ("DIP Loan") financing with a Canadian financial institution consisting of a revolving credit facility of up to \$60,000 and the facilities available for securing letters of credit of up to \$5,000. The DIP Loan bears interest at the lender's prime rate plus 5.00% per annum on the outstanding principal amount of the DIP Loan. The interim financing was approved by the Court on August 20, 2020. As at October 31, 2020, no amount was drawn down on the DIP Loan.

### *Foreign Currency Risk*

The Company's cash flow hedge policy allows it to enter into to certain qualifying foreign exchange contracts to be designated as cash flow hedging instruments to mitigate the foreign exchange risk associated with its merchandise purchases, which are typically in U.S. dollars. As described in note 19, the uncertainty surrounding COVID-19 and the outcome of the CCAA proceedings have reduced future purchases for which foreign exchange contracts were designated as cash flow hedges are no longer expected to occur. Consequently, foreign exchange gains and losses on merchandise purchases are recorded in net earnings instead of in other comprehensive income.

## **21. IMPAIRMENT OF NON-FINANCIAL ASSETS**

At October 31, 2020, as a result of the adverse impact of COVID-19, the Company performed its impairment test for its non-financial assets. The test resulted in the recognition of impairment losses from continuing operations related to right-of-use assets of \$1,349 and \$7,690 and to property and equipment of \$3,179 and \$5,081 for the 13 and 39 weeks ended October 31, 2020, respectively (nil and \$932 related to right-of-use assets and \$330 and \$1,454 related to property and equipment for the 13 and 39 weeks ended November 2, 2019, respectively). The reduction in anticipated profitability at the individual store locations (cash-generating units “CGUs”) resulted in the estimated recoverable amounts of certain CGUs falling below the carrying amount of the CGU at period end.

Recoverable amounts of the CGUs tested for impairment were based on their estimated value in use which was determined using a cash flow model developed by the Company for each individual store locations discounted using a pre-tax discount rate of 20% (November 2, 2019 – 13.5%). The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU. Sales forecasts for cash flows considered the weighted average impact of multiple scenarios based on operating results and internal forecasts prepared by management. A 1% increase in the discount rate does not materially change the results of the tests.

No asset impairment charges were reversed during the 13 and 39 weeks ended October 31, 2020 and November 2, 2019.

## **22. SUBSEQUENT EVENTS**

### *Temporary store closures*

In accordance with local government and public authority guidelines, the Company has experienced some temporary retail location closures. The Company can continue to sell through its e-commerce channel to customers during the applicable periods of closure until further extensions or changes are announced and will continue to follow all local government and health organization guidelines.