

# REITMANS

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the three and nine months ended October 28, 2017 and the audited annual consolidated financial statements for the fiscal year ended January 28, 2017 and the notes thereto which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com). This MD&A is dated November 30, 2017.

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 November 30, 2017.

Unless otherwise indicated, all comparisons of results for the three months ended October 28, 2017 ("third quarter of fiscal 2018") are against results for the three months ended October 29, 2016 ("third quarter of fiscal 2017") and all comparisons of results for the nine months ended October 28, 2017 ("year to date fiscal 2018") are against results for the nine months ended October 29, 2016 ("year to date fiscal 2017").

Additional information about Reitmans is available on the Company's website at [www.reitmanscanadalimited.com](http://www.reitmanscanadalimited.com) or on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

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

identified by words such as “expect”, “anticipate”, “believe”, “foresee”, “could”, “estimate”, “goal”, “intend”, “plan”, “seek”, “strive”, “will”, “may” and “should” and similar expressions, as they relate to the Company and its management.

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

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

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

## NON-GAAP FINANCIAL MEASURES

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

In addition to discussing earnings in accordance with IFRS, this MD&A provides adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”) as a non-GAAP financial measure. Adjusted EBITDA is defined as net earnings before income tax expense/recovery, dividend income, interest income, net change in fair value of marketable securities, interest expense, impairment of goodwill, depreciation, amortization and net impairment charges. The following table reconciles the most comparable GAAP measure, net earnings or loss, to adjusted

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

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

The Company uses a key performance indicator ("KPI"), same store sales, to assess store performance (including each banner's e-commerce store) and sales growth. Same store sales are defined as sales generated by stores that have been continuously open during both of the periods being compared and include e-commerce sales. Same store sales exclude sales from wholesale accounts. The same store sales metric compares the same calendar days for each period. Although this KPI is expressed as a ratio, it is a non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Management uses same store sales in evaluating the performance of stores and 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. Same store sales is a measure widely used amongst retailers and is considered useful information for both investors and analysts. Same store sales should not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS.

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

	For the three months ended		For the nine months ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
<b>Net (loss) earnings</b>	<b>\$ (16.8)</b>	<b>\$ 7.6</b>	<b>\$ (13.7)</b>	<b>\$ 10.6</b>
Depreciation, amortization and net impairment losses	<b>10.6</b>	11.2	<b>32.3</b>	32.3
Dividend income	<b>(0.6)</b>	(0.6)	<b>(1.8)</b>	(1.9)
Interest income	<b>(0.3)</b>	(0.2)	<b>(0.7)</b>	(0.5)
Impairment of goodwill	<b>26.3</b>	-	<b>26.3</b>	-
Net change in fair value of marketable securities	<b>(2.1)</b>	(0.5)	<b>(5.3)</b>	(4.1)
Interest expense	-	-	-	0.1
Income tax expense	<b>1.8</b>	0.9	<b>1.6</b>	0.7
<b>ADJUSTED EBITDA</b>	<b>\$ 18.9</b>	<b>\$ 18.4</b>	<b>\$ 38.7</b>	<b>\$ 37.2</b>
<b>ADJUSTED EBITDA as % of Sales</b>	<b>7.8%</b>	<b>7.5%</b>	<b>5.5%</b>	<b>5.3%</b>

## OVERVIEW

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

*Reitmans*

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

## Penningtons

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

## ADDITION ELLE

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

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



Thyme Maternity is a leading fashion brand for moms-to-be, offering current styles for every aspect of life, from casual to work, plus a complete line of nursing fashions and accessories. Thyme operates stores averaging 2,300 sq. ft. in major malls and power centres across Canada.



Hyba operates stores averaging 3,000 sq. ft. offering affordable, on-trend activewear and yoga clothes for exercising or sports in sizes XS to 2X. The Hyba brand is also available at Reitmans store locations across Canada.

RETAIL BANNERS

	Number of stores at January 28, 2017	Q1 Opening	Q1 Closings	Q2 Opening	Q2 Closings	Q3 Opening	Q3 Closings	Number of stores at October 28, 2017	Number of stores at October 29, 2016
Reitmans	288	-	(5)	-	(3)	-	(4)	276	302
Penningtons	127	-	(1)	-	(1)	-	(3)	122	127
Addition Elle	96	-	-	-	(1)	1	(3)	93	98
RW & CO.	85	-	(1)	1	-	-	(1)	84	84
Thyme Maternity	62	-	(1)	-	(1)	2	(1)	61	64
Hyba	19	1	(1)	1	(1)	-	(3)	16	19
<b>Total</b>	<b>677</b>	<b>1</b>	<b>(9)</b>	<b>2</b>	<b>(7)</b>	<b>3</b>	<b>(15)</b>	<b>652</b>	<b>694</b>

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

## STRATEGIC INITIATIVES

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

INITIATIVES	STATUS
<p>Consumer online purchasing continues to be a major focus. The Company is committed to deliver best-in-class digital customer experiences across its portfolio of e-commerce sites. Strategically, the Company is adopting a digital-first approach, which facilitates rapid and sustainable growth in the digital and omnichannel retail environment. The Company is investing aggressively to optimize and modernize all customer-facing processes and platforms.</p>	<p>The Company continues to enhance its core e-commerce platform, evolve its customer relationship management and marketing automation infrastructure and optimize its customer data management capabilities. The Company has invested in both technology and personnel to strengthen its capabilities in the use of predictive analytics and to enhance the customers' mobile e-commerce experience. Additionally, the Company has revisited its network of media agency relationships to drive maximum return on investment from digital media and is evolving its existing distribution/shipping model to better serve customers through expanded delivery options.</p>
<p>The Company plans to expand the Hyba banner in select markets in Canada.</p>	<p>The Company has identified new locations and it will be opportunistic in seeking optimal space in key locations. Existing stores, converted from the closure of the Smart Set banner, continue to be right-sized to improve efficiencies. Strategies are under review to further develop and capitalize on the Hyba brand.</p>
<p>The Company continues to expand outside of Canada primarily through a wholesale and digital strategy in the US.</p>	<p>The Company has invested in the wholesale channel and has focused its efforts with its plus-size offerings targeting wholesale customers predominantly in the U.S. The Company launched a localized U.S. website in the third quarter of fiscal 2018 and continues to work on developing brand recognition in the U.S. market to drive online sales growth.</p>
<p>A significant investment in the Company's distribution and logistics system was undertaken in order to accommodate the growth of e-commerce and to provide for improved in-store fulfillment.</p>	<p>An initial phase for redesign of the Company's distribution center facility is complete and functional. Further design changes and operational efficiencies continue to be identified as the Company invests in technology, process improvements and training to support the improved logistics and distribution systems.</p>

## OPERATING RESULTS FOR THE THIRD QUARTER OF FISCAL 2018 COMPARED TO THE THIRD QUARTER OF FISCAL 2017

	Third Quarter of Fiscal 2018	Third Quarter of Fiscal 2017	\$ Change	% Change
Sales	\$ 242.4	\$ 245.6	\$ (3.2)	(1.3)%
Cost of goods sold	106.5	105.7	0.8	0.8%
Gross profit	135.9	139.9	(4.0)	(2.9)%
Selling, distribution and administrative expenses	128.6	133.4	(4.8)	(3.6)%
Results from operating activities before impairment of goodwill	7.3	6.5	0.8	12.3%
Impairment of goodwill	26.3	-	26.3	-
Results from operating activities	(19.0)	6.5	(25.5)	(392.3)%
Net finance income	4.0	2.0	2.0	100.0%
(Loss) earnings before income taxes	(15.0)	8.5	(23.5)	(276.5)%
Income tax expense	1.8	0.9	0.9	100.0%
Net (loss) earnings	\$ (16.8)	\$ 7.6	\$ (24.4)	(321.1)%
Adjusted EBITDA	\$ 18.9	\$ 18.4	\$ 0.5	2.7%
 (Loss) earnings per share:				
Basic	\$ (0.27)	\$ 0.12	\$ (0.39)	(325.0)%
Diluted	(0.27)	0.12	(0.39)	(325.0)%
 Earnings per share excluding impairment of goodwill:				
Basic	\$ 0.15	\$ 0.12	\$ 0.03	25.0%
Diluted	0.15	0.12	0.03	25.0%

### Sales

Sales decreased by \$3.2 million or 1.3% to \$242.4 million for the third quarter of fiscal 2018, with a net reduction of 42 stores. The Company continues its plan of adapting to the new retail environment by reducing its store presence in select markets while enhancing its e-commerce capabilities. Same store sales, for stores and e-commerce combined, increased 0.8%, marking the fourteenth consecutive quarter of positive same store sales. This improvement was driven by increased e-commerce sales of 29.7%, as the Company continues to experience strong growth in its e-commerce channel, while store sales decreased by 1.9%.

### Gross Profit

Gross profit as a percentage of sales for the third quarter of fiscal 2018 decreased to 56.1% from 57.0% for the third quarter of fiscal 2017. Gross margins for the third quarter of fiscal 2018 were impacted by higher promotional activity as unseasonably warm fall weather contributed to lower customer traffic. This was partially offset by a positive foreign exchange impact of approximately \$2.1 million on U.S. dollar denominated purchases in the third quarter of fiscal 2018 and continued focus on cost efficiencies realized from global sourcing activities.

### Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses were \$128.6 million for the third quarter of fiscal 2018, compared with \$133.4 million for the third quarter of fiscal 2017. This decrease is primarily attributable to a reduction in store operating costs due to fewer stores, a lower employee performance incentive plan expense that is based upon the attainment of operating performance targets and lower depreciation, amortization and net impairment losses.

### ***Impairment of Goodwill***

Following a review of the profitability of the Addition Elle banner the Company's impairment testing concluded that the carrying value of goodwill exceeded the recoverable amount (refer to Note 6 of the October 28, 2017 unaudited condensed consolidated interim financial statements). As a result, the Company recorded a goodwill impairment loss of \$26.3 million in the third quarter of fiscal 2018.

### ***Net Finance Income***

Net finance income was \$4.0 million for the third quarter of fiscal 2018 as compared to \$2.0 million for the third quarter of fiscal 2017. This increase is primarily attributable to the following:

- a \$2.1 million increase in the fair value of marketable securities for the third quarter of fiscal 2018 compared to a \$0.5 million increase for the third quarter of fiscal 2017;
- a foreign exchange gain of \$1.0 million in the third quarter of fiscal 2018 compared to a gain of \$0.7 million in the third quarter of fiscal 2017, largely attributable to the foreign exchange impact on U.S. denominated monetary assets and liabilities.

### ***Income Taxes***

The income tax expense for the third quarter of fiscal 2018 was impacted primarily by a non-deductible goodwill impairment of \$26.3 million, a \$2.1 million increase in the fair value of marketable securities for which no deferred tax asset has been recognized and tax exempt dividend income relative to the Company's active business income. The Company's effective tax rates include the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

### ***Net Loss***

Net loss for the third quarter of fiscal 2018 was \$16.8 million (\$0.27 basic and diluted loss per share) as compared with net earnings of \$7.6 million (\$0.12 basic and diluted earnings per share) for the third quarter of fiscal 2017.

Excluding the impact of the impairment of goodwill, net earnings for the third quarter of fiscal 2018 increased 25.0% to \$9.5 million (\$0.15 basic and diluted earnings per share) as compared with net earnings of \$7.6 million (\$0.12 basic and diluted earnings per share) for the third quarter of fiscal 2017.

### ***Adjusted EBITDA***

Adjusted EBITDA for the third quarter of fiscal 2018 was \$18.9 million, comparable with \$18.4 million for the third quarter of fiscal 2017.

## OPERATING RESULTS FOR THE YEAR TO DATE FISCAL 2018 COMPARED TO THE YEAR TO DATE FISCAL 2017

	Year to Date Fiscal 2018	Year to Date Fiscal 2017	\$ Change	% Change
Sales	\$ 700.6	\$ 703.5	\$ (2.9)	(0.4)%
Cost of goods sold	312.8	306.9	5.9	1.9%
Gross profit	387.8	396.6	(8.8)	(2.2)%
Selling, distribution and administrative expenses	382.0	390.1	(8.1)	(2.1)%
Results from operating activities before impairment of goodwill	5.8	6.5	(0.7)	(10.8)%
Impairment of goodwill	26.3	-	26.3	-
Results from operating activities	(20.5)	6.5	(27.0)	(415.4)%
Net finance income	8.4	4.8	3.6	75.0%
(Loss) earnings before income taxes	(12.1)	11.3	(23.4)	(207.1)%
Income tax expense	1.6	0.7	0.9	128.6%
Net (loss) earnings	\$ (13.7)	\$ 10.6	\$ (24.3)	(229.2)%
Adjusted EBITDA	\$ 38.7	\$ 37.2	\$ 1.5	4.0%
 (Loss) earnings per share:				
Basic	\$ (0.22)	\$ 0.17	\$ (0.39)	(229.4)%
Diluted	(0.22)	0.17	(0.39)	(229.4)%
 Earnings per share excluding impairment of goodwill:				
Basic	\$ 0.20	\$ 0.17	\$ 0.03	17.6%
Diluted	0.20	0.17	0.03	17.6%

### Sales

Sales decreased by \$2.9 million or 0.4% to \$700.6 million for the year to date fiscal 2018, with a net reduction of 42 stores. The Company continues to execute against a plan adapting to the new retail environment by reducing its store presence in select markets while enhancing its e-commerce capabilities. Same store sales, for stores and e-commerce combined, increased 2.7%. This improvement was driven by increased e-commerce sales of 40.4%, as the Company continues to experience strong growth in its e-commerce channel, while stores sales decreased by 0.5%.

### Gross Profit

Gross profit as a percentage of sales for the year to date fiscal 2018 decreased to 55.4% from 56.4% for the year to date fiscal 2017 driven primarily by the adverse foreign exchange impact of approximately \$9.2 million on U.S. dollar denominated purchases. The Company continues to drive cost efficiencies through its global sourcing activities thereby helping to mitigate the negative impact of foreign exchange.

### Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses were \$382.0 million for the year to date fiscal 2018, compared with \$390.1 million for the year to date fiscal 2017, primarily attributable to a reduction in store operating costs due to fewer stores and a lower employee performance incentive plan expense that is based upon the attainment of operating performance targets.

### ***Impairment of Goodwill***

Following a review of the profitability of the Addition Elle banner the Company's impairment testing concluded that the carrying value of goodwill exceeded the recoverable amount (refer to Note 6 of the October 28, 2017 unaudited condensed consolidated interim financial statements). As a result, the Company recorded a goodwill impairment loss of \$26.3 million in the year to date fiscal 2018.

### ***Net Finance Income***

Net finance income was \$8.4 million for the year to date fiscal 2018 as compared to net finance income of \$4.8 million for the year to date fiscal 2017. This increase is primarily attributable to the following:

- a \$0.6 million foreign exchange gain in the year to date fiscal 2018 compared to a \$1.5 million loss in the year to date fiscal 2017, largely attributable to the foreign exchange impact on U.S. denominated monetary assets and liabilities;
- a \$5.3 million increase in the fair value of marketable securities for the year to date fiscal 2018 compared to a \$4.1 million increase for the year to date fiscal 2017.

### ***Income Taxes***

The income tax expense for the year to date fiscal 2018 was impacted primarily by a non-deductible goodwill impairment of \$26.3 million, a \$5.3 million increase in the fair value of marketable securities for which no deferred tax asset has been recognized and tax exempt dividend income relative to the Company's active business income. The Company's effective tax rates include the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

### ***Net Loss***

Net loss for the year to date fiscal 2018 was \$13.7 million (\$0.22 basic and diluted loss per share) as compared with net earnings of \$10.6 million (\$0.17 basic and diluted earnings per share) for the year to date fiscal 2017.

Excluding the impact of the impairment of goodwill, net earnings for the year to date fiscal 2018 increased 18.9% to \$12.6 million (\$0.20 basic and diluted earnings per share) as compared with net earnings of \$10.6 million (\$0.17 basic and diluted earnings per share) for the year to date fiscal 2017.

### ***Adjusted EBITDA***

Adjusted EBITDA for the year to date fiscal 2018 was \$38.7 million, comparable with \$37.2 million for the year to date fiscal 2017.

## FOREIGN EXCHANGE CONTRACTS

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

Details of the foreign currency contracts outstanding as at October 28, 2017 are as follows:

	Average Strike Price	Notional Amount in U.S. Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
Foreign exchange forward contracts	\$ 1.303	\$ 199.5	\$ 1.6	\$ (5.5)	\$ (3.9)

Details of the foreign currency contracts outstanding as at October 29, 2016 are as follows:

	Average Strike Price	Notional Amount in U.S. Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
Foreign exchange forward contracts	\$ 1.340	\$166.5	\$ 3.3	\$ (3.7)	\$ (0.4)

Details of the foreign currency contracts outstanding as at January 28, 2017 are as follows:

	Average Strike Price	Notional Amount in U.S. Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
Foreign exchange forward contracts	\$ 1.319	\$ 197.0	\$ 1.4	\$ (3.2)	\$ (1.8)

## SUMMARY OF QUARTERLY RESULTS

Due to seasonality and the timing of holidays, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. The table below presents selected consolidated financial data for the eight most recently completed quarters. All references to "2018" are to the Company's fiscal year ending February 3, 2018, "2017" are to the Company's fiscal year ended January 28, 2017 and "2016" are to the fiscal year ended January 30, 2016.

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2018 <sup>1</sup>	2017	2018	2017	2017	2016	2017	2016 <sup>2</sup>
Sales	\$ 242.4	\$ 245.6	\$ 251.1	\$ 254.4	\$ 207.1	\$ 203.5	\$ 248.4	\$ 242.2
Net (loss) earnings	(16.8)	7.6	9.7	9.0	(6.6)	(6.0)	0.3	(16.5)
(Loss) earnings per share								
Basic	\$ (0.27)	\$ 0.12	\$ 0.15	\$ 0.14	\$ (0.10)	\$ (0.09)	\$ 0.00	\$ (0.26)
Diluted	(0.27)	0.12	0.15	0.14	(0.10)	(0.09)	0.00	(0.26)
Net earnings (loss) before impairment of goodwill	\$ 9.5	\$ 7.6	\$ 9.7	\$ 9.0	\$ (6.6)	\$ (6.0)	\$ 0.3	\$ (12.3)
Earnings (loss) per share excluding impairment of goodwill								
Basic	\$ 0.15	\$ 0.12	\$ 0.15	\$ 0.14	\$ (0.10)	\$ (0.09)	\$ 0.00	\$ (0.19)
Diluted	0.15	0.12	0.15	0.14	(0.10)	(0.09)	0.00	(0.19)

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

<sup>2</sup> Includes the impact of an impairment of goodwill of \$4.2 million related to the Thyme Maternity banner.

In addition to other factors, fluctuations in the above-noted quarterly financial information reflect the impact on net earnings and earnings per share of the fluctuation of the Canadian dollar vis-à-vis the U.S. dollar along with the change in the fair value of marketable securities.

## BALANCE SHEET

Selected line items from the Company's balance sheets as at October 28, 2017 and January 28, 2017 are presented below:

	October 28, 2017	January 28, 2017	\$ Change	% Change
Cash and cash equivalents	\$ 119.1	\$ 120.3	\$ (1.2)	(1.0)%
Marketable securities	60.0	54.8	5.2	9.5%
Trade and other receivables	7.0	4.3	2.7	62.8%
Income taxes recoverable	1.3	3.5	(2.2)	(62.9)%
Inventories	146.7	146.1	0.6	0.4%
Property and equipment & intangible assets	132.5	147.2	(14.7)	(10.0)%
Goodwill	11.9	38.2	(26.3)	(68.8)%
Deferred income taxes	26.3	25.9	0.4	1.5%
Trade and other payables (current and long-term)	119.8	121.4	(1.6)	(1.3)%
Net derivative financial liability	3.9	1.8	2.1	116.7%
Deferred revenue	13.9	21.5	(7.6)	(35.3)%

Changes in selected line items from October 28, 2017 compared to January 28, 2017 were primarily due to the following:

- cash and cash equivalents decreased primarily due to investments in property and equipment and dividend payments which were mainly offset by cash generated from operating activities in the year to date fiscal 2018;
- marketable securities increased due to the net change in their fair value in the year to date fiscal 2018;
- trade and other receivables consist primarily of credit card sales from the last few days of the quarter, wholesale account receivables and government tax incentives. The increase is primarily due to higher credit card receivables due to timing of the quarter end, higher wholesale account receivables as a result of wholesale growth and an outstanding government incentive program receivable;
- income taxes recoverable consist of tax refunds relating to prior years, net of current year tax liabilities;
- inventories include the normal build-up of merchandise for the holiday selling season whereas January inventories largely comprise early receipts of spring merchandise. A reduction in the number of stores contributed to lower inventories which was offset by an increase in the amount of merchandise needed to support significant growth in the e-commerce channel;
- the decrease in property and equipment and intangible assets reflects the reduction in the number of stores and a focus on managing capital investments;
- the reduction of goodwill is attributable to the recognition of an impairment of goodwill charge related to the Addition Elle banner;
- deferred income taxes were higher primarily due to deductible temporary timing differences arising on foreign exchange forward contracts;
- trade and other payables were slightly lower in part due to a reduction in the employee performance incentive plan liability partially offset by an increase in the provision for estimated

sales returns. The Company's trade and other payables consist largely of trade payables, personnel liabilities, payables relating to premises and sales tax liabilities;

- the change in the net derivative position is attributable to the impact of mark-to-market adjustments on foreign exchange forward contracts;
- deferred revenue decreased due to the timing of gift card redemptions and loyalty reward program incentives. 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.

## OPERATING AND FINANCIAL RISK MANAGEMENT

Detailed descriptions of the operating and financial risks management strategies are included in the Company's annual MD&A and Annual Information Form for the year ended January 28, 2017 (which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)).

There have been no significant changes in the Company's operating and financial risk exposures during the nine months ended October 28, 2017.

## LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company primarily uses funds for working capital requirements, capital expenditure, and payment of dividends. Shareholders' equity as at October 28, 2017 amounted to \$349.3 million or \$5.52 per share (October 29, 2016 - \$376.6 million or \$5.95 per share; January 28, 2017 - \$373.5 million or \$5.90 per share). The Company continues to be in a strong financial position. The Company's principal sources of liquidity are its cash and cash equivalents and investments in marketable securities of \$179.1 million as at October 28, 2017 (October 29, 2016 - \$151.1 million; January 28, 2017 - \$175.1 million). Cash is held in interest bearing accounts, and when deemed appropriate, in short-term investments with major Canadian financial institutions. The Company closely monitors its risk with respect to short-term cash investments.

The Company has unsecured operating lines of credit available with Canadian chartered banks in an amount of \$75.0 million or its U.S. dollar equivalent. As at October 28, 2017, \$4.1 million (October 29, 2016 - \$10.4 million; January 28, 2017 - \$9.7 million) of the operating lines of credit were committed for documentary and standby letters of credit.

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

The Company continued repayment on its long-term debt, relating to the mortgage on the distribution centre, paying down \$0.5 million in the third quarter of fiscal 2018. Effective as of November 6, 2017 the Company had fully repaid all its long-term debt. The Company paid \$0.05 dividends per share in third quarter of fiscal 2018 totalling \$3.2 million, which was the same as in the third quarter of fiscal 2017. With regard to dividend policy, the Board of Directors considers the Company's earnings per share, cash flow from operations, the level of planned capital expenditures and its cash and marketable securities. The targeted payout ratio is approximately 50% to 80% of sustainable earnings per share, 50% to 75% of cash flow from operations with consideration as to the ability to augment the dividend from the liquidity on the Company's balance sheet, if these targets are missed in a given year. The Board of Directors reviews these guidelines regularly.

In the third quarter of fiscal 2018, the Company invested \$6.8 million in capital expenditures, on a

cash basis, primarily on new and renovated stores. In fiscal 2018, the Company expects to invest approximately \$31.0 million in capital expenditures. These expenditures, together with the payment of dividends are expected to be funded by the Company's existing financial resources and funds derived from its operations.

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

## FINANCIAL COMMITMENTS

There have been no material changes in the Company's financial commitments that are outside of the ordinary course of the Company's business from those described in the Company's audited annual consolidated financial statements for the year ended January 28, 2017.

## OUTSTANDING SHARE DATA

At November 30, 2017, 13,440,000 Common shares and 49,890,266 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. The Company has 2,690,550 share options outstanding at an average exercise price of \$7.95. Each share option entitles the holder to purchase one Class A non-voting share of the Company at an exercise price established based on the market price of the shares at the date the option was granted.

In the nine months ended October 28, 2017, the Company did not purchase any shares under the normal course issuer bid approved in December 2016. For further information with respect to the normal course issuer bid refer to the Company's audited annual consolidated financial statements for the year ended January 28, 2017.

## OFF-BALANCE SHEET ARRANGEMENTS

### Derivative Financial Instruments

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

Details of the foreign currency contracts outstanding as at October 28, 2017, October 29, 2016 and as at January 28, 2017 are included in the "Foreign Exchange Contracts" section of this MD&A.

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

## RELATED PARTY TRANSACTIONS

There have been no significant changes in related party transactions from those disclosed in the Company's audited annual consolidated financial statements for the year ended January 28, 2017.

## FINANCIAL INSTRUMENTS

The Company is liquid with significant cash and cash equivalents along with marketable securities. The Company uses its cash resources to fund ongoing store construction and renovations along with working capital needs. Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, trade and other receivables and foreign 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. Marketable securities consist of preferred shares of Canadian public companies. The Company's investment portfolio is subject to stock market volatility.

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

## CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

### Key Sources of Estimation Uncertainty

There have been no significant changes in the key sources of estimation uncertainty and judgements made in relation to the accounting policies applied as disclosed in the Company's annual MD&A for the year ended January 28, 2017 (which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)).

## NEW ACCOUNTING POLICIES ADOPTED IN FISCAL 2018

Except as described below, the significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended January 28, 2017 have been applied consistently in the preparation of the unaudited condensed consolidated interim financial statements.

### Disclosure Initiative (Amendments to IAS 7)

In January 2016, the IASB issued amendments to IAS 7, Statements of Cash Flows that requires specific disclosures for movements in certain liabilities on the statement of cash flows. These amendments are applicable for the annual period beginning on or after January 1, 2017. These amendments did not require any significant change to the Company's presentation and disclosure in the unaudited condensed consolidated interim financial statements. The Company will be providing additional disclosure in relation to the changes in liabilities arising from financing activities in its annual consolidated financial statements for fiscal 2018.

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the nine months ended October 28, 2017 and have not been applied in preparing the unaudited condensed consolidated interim financial statements. New standards and amendments to standards and interpretations that are currently under review include:

- IFRS 16 - Leases
- IFRS 15 - Revenue from Contracts with Customers
- IFRS 2 - Share-based Payment

Further information on these modifications can be found in Note 3 of the October 28, 2017 unaudited condensed consolidated interim financial statements.

## DISCLOSURE CONTROLS AND PROCEDURES

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

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

No changes were made to the Company's internal controls over financial reporting during the nine months ended October 28, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## OUTLOOK

The Company continues to respond to the changing retail environment that has been significantly impacted by a shift in consumer buying behaviors to online purchasing, the impact of a stronger U.S. dollar on U.S. denominated purchases and increased competition from foreign entrants in the Canadian marketplace. The Company has taken a variety of measures to respond to these challenges including significant investments in its e-commerce talent and technology. These investments are contributing to exceptional growth in e-commerce sales. Improvements in the Company's sourcing capabilities through better vendor collaboration with a focus on quality, pricing and payment terms are continuing to drive cost efficiencies. Through improved product development, branding and partnerships with noteworthy spokespersons, the banners continue to improve the store experience while maintaining attention to driving profitability of stores. The Company's wholesale operations are in the early stages but have shown exciting opportunities in the U.S. marketplace with a wide variety of retailers showing interest in product offerings.

The Company has invested considerably in technology and has plans to invest further in its store, e-commerce and fulfillment capabilities. The retail industry and our customers are changing at an accelerating pace and, as a result, the Company recognizes its need to significantly increase its agility and improve efficiencies. The ability to quickly respond to these new demands and continue to reinvent will be key to long-term growth and future success.

Changes have been made to the leadership team and the Company is optimistic that it has a strong team in place to drive growth and execute on its strategy. The Company continues to believe that it has premium brands with excellent digital capabilities, highly recognizable celebrity collaborations and strategies in place with the potential to generate long-term profitable growth for the Company.