

REITMANS

(CANADA) LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

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

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

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

OVERVIEW

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

Reitmans

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

Penningtons

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

ADDITION ELLE

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

RW&CO.

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



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



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

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

RETAIL BANNERS

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

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

STRATEGIC INITIATIVES

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

Ongoing and new Company initiatives include:

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

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

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

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

Sales

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

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

Gross Profit

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

Selling, Distribution and Administrative Expenses

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

Impairment of Goodwill

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

Net Finance Income

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

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

Income Taxes

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

Net Earnings

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

Adjusted EBITDA

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

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

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

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

Sales

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

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

Gross Profit

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

Selling, Distribution and Administrative Expenses

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

Impairment of Goodwill

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

Net Finance Income

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

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

Income Taxes

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

Net Earnings

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

Adjusted EBITDA

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

FOREIGN EXCHANGE CONTRACTS

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

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

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

SUMMARY OF QUARTERLY RESULTS

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

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

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

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

BALANCE SHEET

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

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

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

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

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

OPERATING AND FINANCIAL RISK MANAGEMENT

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

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

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

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

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

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

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

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

FINANCIAL COMMITMENTS

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

OUTSTANDING SHARE DATA

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

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

OFF-BALANCE SHEET ARRANGEMENTS

Derivative Financial Instruments

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

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

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

RELATED PARTY TRANSACTIONS

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

FINANCIAL INSTRUMENTS

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

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

CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

Key Sources of Estimation Uncertainty

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

NEW ACCOUNTING POLICIES ADOPTED IN FISCAL 2019

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

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

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

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

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

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

OUTLOOK

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

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