

# REITMANS

(CANADA) LIMITED

**Unaudited Condensed Consolidated Interim Financial Statements  
November 3, 2018 and October 28, 2017**

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

(Unaudited)

(in thousands of Canadian dollars except per share amounts)

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

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

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

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

(Unaudited)

(in thousands of Canadian dollars)

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

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

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

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

(Unaudited)

(in thousands of Canadian dollars)

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

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

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

**REITMANS (CANADA) LIMITED**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the 39 weeks ended**  
(Unaudited)  
(in thousands of Canadian dollars)

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

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

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

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

(Unaudited)

(in thousands of Canadian dollars)

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

Supplementary cash flow information (note 14)

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

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

## **REITMANS (CANADA) LIMITED**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited)

(in thousands of Canadian dollars except per share amounts)

#### **1. REPORTING ENTITY**

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

#### **2. BASIS OF PRESENTATION**

##### **a) Statement of Compliance**

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

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

##### **b) Basis of Measurement**

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

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

##### **c) Seasonality of Interim Operations**

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

#### **d) Functional and Presentation Currency**

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

#### **e) Estimates, Judgments and Assumptions**

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

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

### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

#### **a) Adoption of new accounting policies**

##### *IFRS 15 - Revenue from Contracts with Customers*

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

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

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

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

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

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

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

### Condensed Consolidated Interim Balance Sheets

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

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

## Condensed Consolidated Interim Statements of Earnings

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

  

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

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

### Update to significant accounting policies

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

#### *Revenue*

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

#### *Customer loyalty award programs*

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

#### *Gift cards*

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

### *Sales with a Right of Return*

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

### *IFRS 2 – Share-based Payment*

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

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

## **b) New Standards and Interpretations Not Yet Adopted**

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

### *IFRS 16 - Leases*

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

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

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

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

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

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

The amendments to IAS 19 clarify that:

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

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

## **4. CASH AND CASH EQUIVALENTS**

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

## **5. INVENTORIES**

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

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

## 6. GOODWILL

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

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

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

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

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

## 7. TRADE AND OTHER PAYABLES

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

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

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

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

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

## 8. DEFERRED REVENUE

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

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

## 9. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

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

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

### *Authorized Share Capital*

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

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

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

*Purchase of Shares for Cancellation*

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

*Accumulated Other Comprehensive Income (“AOCI”)*

AOCI is comprised of the following:

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

*Dividends*

The following dividends were declared and paid by the Company:

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

**10. SHARE-BASED PAYMENTS**

**Share Option Plan**

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

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

The changes in outstanding share options were as follows:

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

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

### Performance Share Units (cash-settled)

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

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

The changes in outstanding PSUs were as follows:

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

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

## 11. INCOME TAX

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

## 12. FINANCE INCOME AND FINANCE COSTS

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

### 13. EARNINGS (LOSS) PER SHARE

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

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

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

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

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

### 14. SUPPLEMENTARY CASH FLOW INFORMATION

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

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

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

## 15. FINANCIAL INSTRUMENTS

### Accounting classification and fair values

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

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

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

### Derivative financial instruments

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

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

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

## 16. FINANCIAL RISK MANAGEMENT

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