

# REITMANS

(CANADA) LIMITED

**Unaudited Condensed Consolidated Interim Financial Statements  
November 2, 2019 and November 3, 2018**

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

(Unaudited)

(in thousands of Canadian dollars except per share amounts)

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

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

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

(Unaudited)

(in thousands of Canadian dollars)

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

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

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

(Unaudited)

(in thousands of Canadian dollars)

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

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

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

(Unaudited)

(in thousands of Canadian dollars)

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

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

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

(Unaudited)  
(in thousands of Canadian dollars)

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

Supplementary cash flow information (note 14)

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

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

**1. REPORTING ENTITY**

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

**2. BASIS OF PRESENTATION**

**a) Statement of Compliance**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 2, 2019.

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

**b) Basis of Measurement**

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

- marketable securities and derivative financial instruments are measured at fair value;
- lease liabilities are initially measured at the present value of the lease payments that are not paid at the lease commencement date;
- the pension liability is recognized as the present value of the defined benefit obligation less the fair value of the plan assets; and
- liabilities for cash-settled share-based payment arrangements are measured in accordance with IFRS 2, *Share-Based Payment*.

**c) Seasonality of Interim Operations**

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

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

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

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

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied and described in the Company's audited annual consolidated financial statements for the year ended February 2, 2019, except as noted below relating to the adoption of IFRS 16, Leases.

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

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

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended February 2, 2019 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

#### a) Adoption of New Accounting Policies

##### *IFRS 16 – Leases*

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 became effective for annual periods beginning on or after January 1, 2019.

The Company adopted the standard for the annual period beginning February 3, 2019 and applied the requirements of the standard using the modified retrospective approach with the cumulative effects of initial application recorded in opening retained earnings as at February 3, 2019 with no restatements of the comparative period. Under the modified retrospective approach, the Company has elected to use the following practical expedients permitted on adoption of IFRS 16:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The amendments to IAS 19 clarify that:

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

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

#### 4. CASH AND CASH EQUIVALENTS

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

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

#### 5. INVENTORIES

During the 13 and 39 weeks ended November 2, 2019, inventories recognized as cost of goods sold amounted to \$103,391 and \$293,695, respectively (\$100,125 and \$297,154 for the 13 and 39 weeks ended November 3, 2018). In addition, for the 13 and 39 weeks ended November 2, 2019, the Company recorded \$3,053 and \$6,254, respectively (\$3,143 and \$8,582 for the 13 and 39 weeks ended November 3, 2018) of write-downs of inventories as a result of net realizable value being lower than cost which were recognized in cost of goods sold, and no inventory write-downs recognized in previous periods were reversed.

Included in inventories is a return asset for the right to recover returned goods in the amount of \$2,511 as at November 2, 2019 (November 3, 2018 - \$1,904; February 2, 2019 - \$1,248).

#### 6. GOODWILL

For the purpose of impairment testing, goodwill has been allocated to one of the groups of cash-generating units ("CGUs"), the Addition Elle banner.

Goodwill is tested for impairment annually as at the year-end reporting date or more frequently if events or changes in circumstances indicate that they may be impaired. Given the decline in profitability of the Addition Elle banner as compared to forecasts and prior periods, the Company concluded that an interim impairment test at November 2, 2019, was required. In assessing whether goodwill is impaired, the carrying amount of the Addition Elle CGU was compared to its recoverable amount. The recoverable amount is based on the higher of the value in use and fair value less costs to sell.

As at November 2, 2019, the recoverable amount of the Addition Elle banner CGU was based on value in use and was determined by discounting the future cash flows generated from continuing use. Cash flow projections over a three-year period were used along with a terminal value. Cash flows for fiscal 2021 were projected based on past experience as well as actual operating results and a sales growth rate of 1% was used in fiscal 2022 and fiscal 2023. The terminal value was based on the long-term average growth rate for the industry, which was estimated to be 1%. Projected cash flows were discounted using an after-tax discount rate of 13.5%. The discount rate was estimated based on a weighted average cost of capital (WACC) which was based on a risk-free rate, an equity risk premium adjusted for betas of

comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of the Company.

As a result of the test, the Company recorded a goodwill impairment loss of \$11,843 in the 13 and 39 weeks ended November 2, 2019 reducing the carrying amount to nil.

## 7. TRADE AND OTHER PAYABLES

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

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

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

- (1) As a result of the decision to close its Hyba stores for the year ended February 2, 2019, the Company recognized a provision for onerous leases related to these stores. For the 39 weeks ended November 2, 2019, the onerous contracts provision decreased to nil due to amounts paid and reversed during the period. For the 13 and 39 weeks ended November 3, 2018, the onerous contracts provision (current and non-current) increased \$812 and \$1,137, respectively due to additional provisions and changes in the discounted amount offset by a decrease of \$428 and \$677, respectively due to amounts reversed during the period. For the year ended February 2, 2019, the onerous contracts provision (current and non-current) decreased by \$2,537 due to amounts paid and reversed during the year.

## 8. DEFERRED REVENUE

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

## 9. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

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

### *Authorized Share Capital*

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

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

### *Purchase of shares under a substantial issuer bid*

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

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

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

AOCI is comprised of the following:

	Cash Flow Hedges	Foreign Currency Translation Differences	Total AOCI
Balance at February 3, 2019	\$ (352)	\$ (932)	\$ (1,284)
Net change in fair value of cash flow hedges (net of tax of \$234)	649	-	649
Transfer of realized gain on cash flow hedges to inventory (net of tax of \$309)	(856)	-	(856)
Change in foreign currency translation differences	-	(35)	(35)
Balance at November 2, 2019	<u>\$ (559)</u>	<u>\$ (967)</u>	<u>\$ (1,526)</u>
Balance at February 4, 2018	\$ (4,923)	\$ (658)	\$ (5,581)
Net change in fair value of cash flow hedges (net of tax of \$773)	2,106	-	2,106
Transfer of realized loss on cash flow hedges to inventory (net of tax of \$1,804)	4,915	-	4,915
Change in foreign currency translation differences	-	(270)	(270)
Balance at November 3, 2018	<u>\$ 2,098</u>	<u>\$ (928)</u>	<u>\$ 1,170</u>

### Dividends

The following dividends were declared and paid by the Company:

	For the 13 weeks ended		For the 39 weeks ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Common shares and Class A non-voting shares	\$ 2,442	\$ 3,167	\$ 8,776	\$ 9,501
Dividend per share	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>

## 10. SHARE-BASED PAYMENTS

### Share Option Plan

Under the share option plan, the Company can, at its sole discretion, grant share options and/or Share Appreciation Rights (“SARs”). The amended share option plan provides that up to 10% of the Class A non-voting shares outstanding, from time to time, may be issued pursuant to the exercise of options granted under the plan to key management and employees. Under the amended plan, the granting of options and the related vesting period, which is normally up to 4 years (previously up to 5 years), are at the discretion of the Board of Directors and the options have a maximum term of up to 7 years (previously up to 10 years). The exercise price payable for each Class A non-voting share covered by a share option is determined by the Board of Directors at the date of grant, but may not be less than the closing price of the Company’s shares on the trading day immediately preceding the effective date of the grant. The SARs entitle key management and employees to a cash payment based on the increase in the share price of the Company’s Class A non-voting shares from the grant date to the vesting date. No SARs have been granted or are outstanding.

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

The changes in outstanding share options were as follows:

	For the 13 weeks ended				For the 39 weeks ended			
	November 2, 2019		November 3, 2018		November 2, 2019		November 3, 2018	
	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price
Outstanding, at beginning of period	1,830	\$ 8.14	2,071	\$ 7.91	1,938	\$ 8.06	2,401	\$ 7.81
Forfeited	(50)	6.75	(133)	5.78	(158)	6.65	(463)	6.79
Outstanding, at end of period	1,780	\$ 8.18	1,938	\$ 8.06	1,780	\$ 8.18	1,938	\$ 8.06
Options exercisable, at end of period	1,571	\$ 8.42	1,403	\$ 8.73	1,571	\$ 8.42	1,403	\$ 8.73

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

For the 13 and 39 weeks ended November 2, 2019, the Company recognized compensation costs of \$3 and \$32, respectively, relating to its share option plan (\$7 and \$45 for the 13 and 39 weeks ended November 3, 2018), with a corresponding credit to contributed surplus.

### Performance Share Units (cash-settled)

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

On April 10, 2019, the Company granted 440,000 PSUs at a weighted average share price of \$3.23 (481,000 PSUs at a weighted average share price of \$4.06 for the 39 weeks ended November 3, 2018).

The changes in outstanding PSUs were as follows:

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

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

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

As at November 3, 2018, the Company recognized share-based compensation expenses related to PSUs of \$20 and \$117 in selling and distribution expenses and \$4 and \$44 in administrative expenses for the 13 and 39 weeks ended November 3, 2018, respectively, with a corresponding change in other non-current payables.

## 11. INCOME TAX

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

## 12. FINANCE INCOME AND FINANCE COSTS

	For the 13 weeks ended		For the 39 weeks ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Dividend income from marketable securities	\$ 138	\$ 584	\$ 1,427	\$ 1,841
Interest income	363	602	1,308	1,449
Foreign exchange gain	32	-	-	1,830
Finance income	533	1,186	2,735	5,120
Interest expense on lease liabilities	1,832	-	5,696	-
Net change in fair value and loss on disposal of marketable securities <sup>(1)</sup>	4,409	2,696	8,264	3,761
Foreign exchange loss	-	194	452	-
Finance costs	6,241	2,890	14,412	3,761
Net finance (costs) income recognized in net earnings	\$ (5,708)	\$ (1,704)	\$ (11,677)	\$ 1,359

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

### 13. (LOSS) EARNINGS PER SHARE

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

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

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

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

All share options were excluded from the calculation of diluted (loss) earnings per share for the 13 and 39 weeks ended November 2, 2019 and November 3, 2018 as these options were deemed to be anti-dilutive.

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

### 14. SUPPLEMENTARY CASH FLOW INFORMATION

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

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

## 15. FINANCIAL INSTRUMENTS

### Accounting classification and fair values

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

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

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

## Derivative financial instruments

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

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

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

## 16. FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the 13 and 39 weeks ended November 2, 2019 from those described in the Company's audited annual consolidated financial statements for the year ended February 2, 2019.