

REITMANS

(CANADA) LIMITED

**Unaudited Condensed Consolidated Interim Financial Statements
October 30, 2021 and October 31, 2020**

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS

(Unaudited)

(in thousands of Canadian dollars except per share amounts)

	Notes	For the 13 weeks ended		For the 39 weeks ended	
		October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Sales		\$ 178,184	\$ 163,362	\$ 471,732	\$ 388,675
Cost of goods sold	7	76,839	81,819	214,774	207,316
Gross profit		101,345	81,543	256,958	181,359
Selling and distribution expenses		71,187	80,679	196,950	214,755
Administrative expenses		9,005	8,280	26,362	24,891
(Reversal of) impairment of non-financial assets	21	(121)	4,528	(628)	12,771
Restructuring costs (gains), net	11	(307)	1,592	(12,726)	25,137
Results from operating activities		21,581	(13,536)	47,000	(96,195)
Finance income	16	723	201	1,576	12,112
Finance costs	16	889	1,406	3,056	4,373
Earnings (loss) before income taxes		21,415	(14,741)	45,520	(88,456)
Income tax (recovery) expense	15	(574)	217	(388)	660
Net earnings (loss) from continuing operations		21,989	(14,958)	45,908	(89,116)
Earnings (loss) from discontinued operations, net of tax	4	4,839	383	15,032	(72,181)
Net earnings (loss)		\$ 26,828	\$ (14,575)	\$ 60,940	\$ (161,297)
Earnings (loss) per share :	17				
Basic		\$ 0.55	\$ (0.30)	\$ 1.25	\$ (3.30)
Diluted		0.55	(0.30)	1.25	(3.30)
Earnings (loss) per share from continuing operations :	17				
Basic		\$ 0.45	\$ (0.31)	\$ 0.94	\$ (1.82)
Diluted		0.45	(0.31)	0.94	(1.82)

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)

	Notes	For the 13 weeks ended		For the 39 weeks ended	
		October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Net earnings (loss)		\$ 26,828	\$ (14,575)	\$ 60,940	\$ (161,297)
Other comprehensive income (loss)					
Items that are or may be reclassified subsequently to net earnings:					
Cash flow hedges (net of tax of \$273 for the 39 weeks ended October 31, 2020)	13	-	-	-	(754)
Foreign currency translation differences	13	29	28	152	(53)
Total other comprehensive income (loss)		29	28	152	(807)
Total comprehensive income (loss)		\$ 26,857	\$ (14,547)	\$ 61,092	\$ (162,104)

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

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(Unaudited)

(in thousands of Canadian dollars)

	Notes	October 30, 2021	October 31, 2020	January 30, 2021
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	5	\$ 87,427	\$ 82,717	\$ 77,915
Trade and other receivables	6	6,138	6,018	10,668
Inventories	7	133,533	111,853	96,122
Prepaid expenses		36,709	30,074	32,100
Total Current Assets		263,807	230,662	216,805
NON-CURRENT ASSETS				
Property and equipment	21	62,694	70,680	66,112
Intangible assets		7,460	11,714	10,331
Right-of-use assets	8,21	39,449	121,441	103,831
Deferred income taxes		151	-	151
Total Non-Current Assets		109,754	203,835	180,425
TOTAL ASSETS		\$ 373,561	\$ 434,497	\$ 397,230
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Trade and other payables	9	\$ 40,731	\$ 45,663	\$ 31,522
Deferred revenue	10	10,526	10,010	12,462
Income taxes payable		664	2,418	1,169
Current portion of lease liabilities	8	22,427	38,764	35,303
Liabilities subject to compromise	11	185,565	203,332	204,083
Total Current Liabilities		259,913	300,187	284,539
NON-CURRENT LIABILITIES				
Lease liabilities	8	27,228	98,963	87,914
Pension liability		3,643	3,627	3,092
Total Non-Current Liabilities		30,871	102,590	91,006
SHAREHOLDERS' EQUITY				
Share capital	13	27,406	27,406	27,406
Contributed surplus		10,295	10,290	10,295
Retained earnings (deficit)		45,778	(4,942)	(15,162)
Accumulated other comprehensive loss	13	(702)	(1,034)	(854)
Total Shareholders' Equity		82,777	31,720	21,685
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 373,561	\$ 434,497	\$ 397,230

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

Subsequent events (note 22)

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

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

(Unaudited)
(in thousands of Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders’ Equity
Balance as at January 31, 2021		\$ 27,406	\$ 10,295	\$ (15,162)	\$ (854)	\$ 21,685
Net earnings		-	-	60,940	-	60,940
Total other comprehensive income	13	-	-	-	152	152
Total comprehensive income for the period		-	-	60,940	152	61,092
Balance as at October 30, 2021		<u>\$ 27,406</u>	<u>\$ 10,295</u>	<u>\$ 45,778</u>	<u>\$ (702)</u>	<u>\$ 82,777</u>
Balance as at February 2, 2020		\$ 27,406	\$ 10,283	\$ 156,355	\$ (227)	\$ 193,817
Net loss		-	-	(161,297)	-	(161,297)
Total other comprehensive loss	13	-	-	-	(807)	(807)
Total comprehensive loss for the period		-	-	(161,297)	(807)	(162,104)
Share-based compensation costs	14	-	7	-	-	7
Total contributions by owners of the Company		-	7	-	-	7
Balance as at October 31, 2020		<u>\$ 27,406</u>	<u>\$ 10,290</u>	<u>\$ (4,942)</u>	<u>\$ (1,034)</u>	<u>\$ 31,720</u>

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

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

(Unaudited)
(in thousands of Canadian dollars)

	Notes	For the 13 weeks ended		For the 39 weeks ended	
		October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES					
Net earnings (loss)		\$ 26,828	\$ (14,575)	\$ 60,940	\$ (161,297)
Adjustments for:					
Depreciation and amortization		11,614	14,829	36,262	47,323
(Reversal of) impairment of non-financial assets	21	(121)	5,230	(628)	34,789
Share-based compensation costs	14	-	2	-	7
Net change in transfer of realized gain on cash flow hedges inventory		-	-	-	(250)
Foreign exchange loss (gain)		334	(2,086)	1,789	(1,281)
Gain on lease re-measurements due to restructuring		(71)	(3,130)	(5,073)	(6,011)
Interest on lease liabilities	8	889	1,408	3,056	4,831
Interest income	16	(94)	(146)	(230)	(372)
Income tax (recovery) expense		(574)	217	(388)	740
		38,805	1,749	95,728	(81,521)
Changes in:					
Trade and other receivables		(832)	6,949	4,521	153
Inventories		(23,733)	(3,924)	(37,411)	35,575
Prepaid expenses and deposits		907	(8,212)	(4,609)	(20,633)
Trade and other payables		3,038	10,829	9,058	(64,344)
Liabilities subject to compromise		(7,113)	8,065	(17,467)	193,644
Pension liability		183	185	550	(20,586)
Deferred revenue	10	(763)	(2,422)	(1,936)	(5,032)
Cash from operating activities		10,492	13,219	48,434	37,256
Interest received		106	154	239	514
Income taxes received		-	771	-	883
Income taxes paid		-	(198)	(1,168)	(2,139)
Net cash flows from operating activities		10,598	13,946	47,505	36,514
CASH FLOWS USED IN INVESTING ACTIVITIES					
Additions to property and equipment and intangible assets, net	18	(4,032)	(1,407)	(6,882)	(4,794)
Cash flows used in investing activities		(4,032)	(1,407)	(6,882)	(4,794)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Payment of lease liabilities		(9,190)	(11,510)	(29,455)	(39,951)
Cash flows used in financing activities		(9,190)	(11,510)	(29,455)	(39,951)
FOREIGN EXCHANGE (LOSS) GAIN ON CASH HELD IN FOREIGN CURRENCY					
		(291)	2,343	(1,656)	1,538
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS					
		(2,915)	3,372	9,512	(6,693)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD					
		90,342	79,345	77,915	89,410
CASH AND CASH EQUIVALENTS, END OF THE PERIOD					
		\$ 87,427	\$ 82,717	\$ 87,427	\$ 82,717

Supplementary cash flow information (note 18)

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

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

1. REPORTING ENTITY

Reitmans (Canada) Limited (the “Company”) is a company domiciled in Canada and is incorporated under the Canada Business Corporations Act. The address of the Company’s registered office is 155 Wellington Street West, 40th 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 January 30, 2021.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on December 16, 2021.

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

The COVID-19 pandemic had significant impacts for the Company. The lockdown measures adopted by the Federal and Provincial governments in order to mitigate the spread of COVID-19 required the Company to close all of its retail locations across Canada early in the previous fiscal year ended January 30, 2021. Throughout the fiscal year ended January 30, 2021 and in the 39 weeks ended October 30, 2021, these lockdown measures were lifted and reinstated at different times to stop the spread of COVID-19 and its variants. During those periods when all the stores were closed, the Company’s only sales were derived from its e-commerce channel. As at October 30, 2021, all of the Company’s stores were open.

The Company continued to be eligible to receive government assistance from the Canada Emergency Wage Subsidy (“CEWS”) and the Canada Emergency Rent Subsidy (“CERS”), which were introduced as a result of COVID-19. See note 6.

CCAA Proceedings

During the fiscal year ended January 30, 2021, specifically on May 19, 2020, the Company obtained an initial order (the “Order”) from the Superior Court of Quebec (the “Court”) to seek protection from creditors under the Companies’ Creditors Arrangement Act (the “CCAA”). Under the terms of the Order, Ernst & Young Inc. was appointed as the monitor (the “Monitor”). The CCAA process allows the Company to implement an operational and commercial restructuring plan to re-position the Company for long-term success (the “restructuring plan”). See note 11.

Since May 2020, the Company obtained five extensions of the Order from the Court for additional stay periods, and the most recent extended the Order to January 28, 2022.

On August 20, 2020, a claims process order (the “claims process”) was approved by the Court. The claims process was initiated on September 10, 2020 and ended October 21, 2020 (“claims bar date”) as described in note 2(f)(iii) to the audited annual consolidated financial statements for the year ended January 30, 2021.

Subsequent to October 30, 2021, the Company obtained authorization from the Court to file its Plan of Arrangement (“the Plan”) under CCAA. See note 22.

Restructuring Plan

As part of its restructuring plan, during the year ended January 30, 2021, the Company closed all retail stores and e-commerce for Thyme Maternity and Addition Elle brands, which resulted in the termination of approximately 1,600 employees in its retail locations and head office. See notes 4 and 11.

Going Concern

Since the beginning of the COVID-19 pandemic, the Company’s financial position has deteriorated. The Company’s shareholders’ equity has decreased by \$111,040 from February 1, 2020 to October 30, 2021. As at October 30, 2021, the Company had interim financing (“DIP Loan”) of up to \$30,000 with a Canadian financial institution. Subsequent to October 30, 2021, the Company entered into a binding commitment with a Canadian financial institution to secure an asset-based revolving credit facility of up to \$115,000. See notes 20 and 22.

The deterioration in the Company’s financial and liquidity position since the beginning of the COVID-19 pandemic and the unpredictability of the outcome of the matters arising from the CCAA proceedings, indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

These condensed consolidated interim financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern, management must take into account all available information about the future, including estimated future cash flows, for a period of at least twelve months following the end of the reporting period. These condensed consolidated interim financial statements as at and for the 39 weeks ended October 30, 2021 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

c) Basis of Measurement

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

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

d) Seasonality of Interim Operations

The retail business is seasonal and the results of operations for any interim period are not necessarily indicative of the results of operation for the full fiscal year or any future period. Due to the impact of COVID-19, sales are not expected to follow historical patterns.

e) Functional and Presentation Currency

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

f) Estimates, Judgments and Assumptions

The preparation of the unaudited condensed consolidated interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Management has made significant judgments in connection with the potential impact of COVID-19 on the Company's reported assets, liabilities, revenue and expenses, and on the related disclosures, using estimates and assumptions, which are subject to significant uncertainties. The extent to which COVID-19 and its variants will continue to impact the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. These future developments include the speed of COVID-19 vaccination rollouts in Canada, vaccination rates amongst the Canadian population and the measures taken by various government authorities to contain the virus and its variants spread for potential future waves as well as future customer shopping behavior including online sales. Accordingly, actual results could differ materially from those estimates and assumptions made by management.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and key sources of estimation uncertainty were the same as those applied and described in the Company's audited annual consolidated financial statements for the year ended January 30, 2021.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended January 30, 2021 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

New standards and interpretations not yet adopted:

Disclosure initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

On February 12, 2021, the IASB issued Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements).

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The amendments help companies provide useful accounting policy disclosures. The key amendments include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

4. DISCONTINUED OPERATIONS

During the fiscal year ended January 30, 2021, the Company closed all retail stores and e-commerce channels of the Thyme Maternity and Addition Elle brands.

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

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

Earnings (loss) from discontinued operations

	For the 13 weeks ended		For the 39 weeks ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Sales	\$ -	\$ 1,379	\$ -	\$ 74,086
Cost of goods sold ⁽¹⁾	-	157	-	51,684
Gross profit	-	1,222	-	22,402
Selling and distribution expenses ⁽²⁾⁽³⁾	-	(887)	-	20,307
Impairment of non-financial assets ⁽⁴⁾	-	702	-	22,018
Restructuring costs (gains), net (note 11) ⁽⁵⁾	(4,839)	1,022	(15,032)	51,720
Results from operating activities	4,839	385	15,032	(71,643)
Finance costs ⁽⁶⁾	-	2	-	458
Earnings (loss) before income taxes	4,839	383	15,032	(72,101)
Income tax expense	-	-	-	80
Net earnings (loss) from discontinued operations	\$ 4,839	\$ 383	\$ 15,032	\$ (72,181)
Earnings (loss) per share, discontinued operations :				
Basic	\$ 0.10	\$ 0.01	\$ 0.31	\$ (1.48)
Diluted	0.10	0.01	0.31	(1.48)

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

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

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

(4) During the 13 and 39 weeks ended October 31, 2020, the Company recognized impairment losses related to right-of-use assets of \$1,007 and \$8,826, impairment reversals related to property and equipment of \$305 and losses of \$10,102 and impairment losses related to intangible assets of nil and \$3,090, respectively. See note 21 for methodology and assumptions used in the impairment test.

(5) During the 13 and 39 weeks ended October 30, 2021, the provision for disclaimed leases was adjusted to reflect the most recent settlement discussions with certain landlords, which resulted in gains during these periods. See note 11. During the 13 and 39 weeks ended October 31, 2020, right-of-use assets increased by \$805 and were reduced by \$28,455 and lease liabilities were reduced by nil and \$31,478, respectively. A corresponding gain of \$805 and \$3,023 was recognized in restructuring costs for the 13 and 39 weeks ended October 31, 2020, respectively, as lease modifications in connection with leases that were disclaimed as part of the CCAA proceedings. See notes 8 and 11.

(6) Finance costs represent interest expense on lease liabilities.

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

Net cash flows used in discontinued operations

	For the 13 weeks ended		For the 39 weeks ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Net cash flow used in from operating activities ⁽¹⁾	\$ -	\$ (4,140)	\$ -	\$ (39,582)
Net cash flow used in investing activities	-	-	-	(762)
Net cash flow used in financing activities	-	(482)	-	(5,903)
Net cash flow for the period	<u>\$ -</u>	<u>\$ (4,622)</u>	<u>\$ -</u>	<u>\$ (46,247)</u>

- (1) Net cash flows used in operating activities for the 39 weeks ended October 31, 2020 have been reduced by \$11,505 to properly record depreciation and amortization expense between continuing and discontinued operations. The correction of these amounts did not otherwise affect net earnings (loss) from continuing and discontinued operations or the net cash flows from operating activities presented in the unaudited condensed consolidated interim statements of earnings (loss) and the unaudited condensed consolidated interim statement of cash flows for the 39 weeks ended October 31, 2020.

5. CASH AND CASH EQUIVALENTS

	October 30, 2021	October 31, 2020	January 30, 2021
Cash ⁽¹⁾	\$ 84,671	\$ 79,967	\$ 75,162
Restricted cash ⁽²⁾	2,756	2,750	2,753
	<u>\$ 87,427</u>	<u>\$ 82,717</u>	<u>\$ 77,915</u>

(1) The Company's cash held with banks bears interest at variable rates.

(2) Restricted cash represents cash held in trust by a Canadian financial institution as security held on a standby letter of credit.

6. TRADE AND OTHER RECEIVABLES

As at October 30, 2021, trade and other receivables include an amount of \$920 (October 31, 2020 – \$1,961; January 30, 2021 – \$7,922) related to government grants receivable. The Government of Canada made available to businesses affected by COVID-19 the Canada Emergency Wage Subsidy (“CEWS”), which allows companies to claim a portion of employee wages, and the Canada Emergency Rent Subsidy (“CERS”), which allows companies to claim a portion of rent and occupancy costs when eligibility requirements are met. As at October 30, 2021, the Company qualified to receive both the CEWS and CERS and there was reasonable assurance that the amounts would be received from the government. The final qualifying period for both the CEWS and the CERS ended during the 13 weeks ended October 30, 2021.

The Company recognized grant income of \$1,482 and \$16,696 from the above subsidies as a reduction of selling and distribution expenses and \$115 and \$1,374 as a reduction of administrative expenses for the 13 and 39 weeks ended October 30, 2021, respectively (\$6,183 and \$24,005 as a reduction of selling and distribution expenses and \$542 and \$2,259 as a reduction of administrative expenses for the 13 and 39 weeks ended October 31, 2020, respectively).

7. INVENTORIES

During the 13 and 39 weeks ended October 30, 2021, inventories recognized as cost of goods sold from continuing operations amounted to \$74,487 and \$213,522 (\$78,775 and \$195,785 for the 13 and 39 weeks ended October 31, 2020). In addition, for the 13 and 39 weeks ended October 30, 2021, the Company recorded \$2,352 and \$1,252, respectively, (\$3,044 and \$11,531 for the 13 and 39 weeks ended October 31, 2020) of write-downs of inventories as a result of net realizable value being lower than cost which were recognized in cost of goods sold.

Included in inventories is a return asset for the right to recover returned goods for \$2,136 as at October 30, 2021 (October 31, 2020 - \$1,988; January 30, 2021 - \$2,484).

8. LEASES

During the fiscal year ended January 30, 2021, in connection with the CCAA proceedings, the Company issued disclaimer notices related to various leases of its retail locations as part of its restructuring plan. Included in liabilities subject to compromise is a provision for the Company's best estimate of claims from landlords for disclaimed leases that will ultimately be settled subject to the plan of arrangement and compromise with the Company's landlords. See note 11.

During the 13 and 39 weeks ended October 30, 2021, the Company continued re-negotiating leases that have not been disclaimed as part of its restructuring plan resulting in the reduction of right-of-use assets of \$20 and \$54,035, respectively, the reduction of lease liabilities by \$81 and \$59,129, respectively, and recognized a gain on lease re-measurements of \$71 and \$5,073, respectively, in restructuring costs (\$1,167 for the 13 and 39 weeks ended October 31, 2020). See note 11.

9. TRADE AND OTHER PAYABLES

	<u>October 30, 2021</u>	<u>October 31, 2020</u>	<u>January 30, 2021</u>
Trade payables	\$ 1,632	\$ 4,856	\$ 2,098
Personnel liabilities	14,484	14,511	10,898
Other non-trade payables	18,718	21,540	12,687
Refund liability	5,209	4,313	4,439
Payables relating to premises	688	443	1,400
	<u>\$ 40,731</u>	<u>\$ 45,663</u>	<u>\$ 31,522</u>

10. DEFERRED REVENUE

	<u>October 30, 2021</u>	<u>October 31, 2020</u>	<u>January 30, 2021</u>
Loyalty points and awards granted under loyalty programs	\$ 1,048	\$ 988	\$ 209
Unredeemed gift cards	9,478	9,022	12,253
	<u>\$ 10,526</u>	<u>\$ 10,010</u>	<u>\$ 12,462</u>

11. LIABILITIES SUBJECT TO COMPROMISE AND RESTRUCTURING COSTS

In connection with the CCAA proceedings, the Company identified the following unsecured liabilities subject to compromise:

	October 30, 2021	October 31, 2020	January 30, 2021
Trade payables and accruals	\$ 78,976	\$ 76,832	\$ 74,823
Provision for disclaimed leases	33,126	52,055	51,905
Pension liabilities (note 12)	21,014	20,857	21,014
Termination benefit liabilities	13,991	12,687	12,786
Lease liabilities	9,686	9,686	9,283
Sales and income taxes payable	5,235	5,068	6,404
Other non-trade payables	23,535	26,147	27,868
	\$ 185,563	\$ 203,332	\$ 204,083

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

Restructuring costs

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

	13 weeks ended October 30, 2021			13 weeks ended October 31, 2020		
	Combined	Continuing	Discontinued	Combined	Continuing	Discontinued
Rent & occupancy costs recovered on lease re-negotiations ⁽¹⁾	\$ -	\$ -	\$ -	\$ (2,205)	\$ (2,205)	\$ -
Provision (recovery) for disclaimed leases ⁽²⁾	(9,612)	(4,773)	(4,839)	116	502	(386)
Gain on lease re-measurements (note 8)	(71)	(71)	-	(3,130)	(2,325)	(805)
Legal, Monitor and other consulting fees	906	906	-	924	924	-
Termination benefits	858	858	-	780	1,255	(475)
DIP lender fees	34	34	-	491	491	-
Inventory purchase cancellation costs and other expenses	2,739	2,739	-	5,638	2,950	2,688
	\$ (5,146)	\$ (307)	\$ (4,839)	\$ 2,614	\$ 1,592	\$ 1,022

(1) Rent and occupancy costs recovered on lease re-negotiation in the amount of \$2,205 were reclassified from selling and distribution expenses to restructuring costs for the 13 weeks ended October 31, 2020.

(2) During the 13 weeks ended October 30, 2021, the provision for disclaimed leases was adjusted to reflect the most recent settlement discussions with certain landlords.

	39 weeks ended October 30, 2021			39 weeks ended October 31, 2020		
	Combined	Continuing	Discontinued	Combined	Continuing	Discontinued
Rent & occupancy costs recovered on lease re-negotiations ⁽¹⁾	\$(10,983)	\$(10,983)	\$ -	\$ (2,205)	\$ (2,205)	\$ -
Provision (recovery) for disclaimed leases ⁽²⁾	(19,330)	(4,298)	(15,032)	52,455	9,726	42,729
Gain on lease re-measurements (note 8)	(5,073)	(5,073)	-	(6,011)	(2,988)	(3,023)
Legal, Monitor and other consulting fees	2,697	2,697	-	3,591	3,591	-
Termination benefits	1,206	1,206	-	12,687	7,266	5,421
DIP lender fees	235	235	-	491	491	-
Inventory purchase cancellation costs and other expenses	3,490	3,490	-	15,849	9,256	6,593
	\$(27,758)	\$(12,726)	\$(15,032)	\$ 76,857	\$ 25,137	\$ 51,720

- (1) Rent and occupancy costs recovered on lease re-negotiation in the amount of \$2,205 were reclassified from selling and distribution expenses to restructuring costs for the 39 weeks ended October 31, 2020.
- (2) During the 39 weeks ended October 30, 2021, the provision for disclaimed leases was adjusted to reflect the most recent settlement discussions with certain landlords.

12. PENSION LIABILITY

The Company sponsors a Supplemental Executive Retirement Plan (“SERP”) for certain senior executives, which is neither registered nor pre-funded. In connection with CCAA proceedings, the pre-petition portion of the pension liability related to SERP of \$21,014, for which the fair value of plan assets is nil, has been reclassified to liabilities subject to compromise. The SERP is expected to be terminated effective with the settlement of these liabilities through the plan of arrangement to be entered into under CCAA. See note 11.

13. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

	For the 39 weeks ended			
	October 30, 2021		October 31, 2020	
	Number of shares (in 000's)	Carrying amount	Number of shares (in 000's)	Carrying amount
Common shares				
Balance at beginning and end of the period	13,440	\$ 482	13,440	\$ 482
Class A non-voting shares				
Balance at beginning and end of the period	35,427	26,924	35,427	26,924
Total share capital	48,867	\$ 27,406	48,867	\$ 27,406

Authorized Share Capital

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

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

Accumulated Other Comprehensive Income (“AOCI”)

AOCI is comprised of the following:

	Cash Flow Hedges	Foreign Currency Translation Differences	Total AOCI
Balance at January 31, 2021	\$ -	\$ (854)	\$ (854)
Change in foreign currency translation differences	-	152	152
Balance at October 30, 2021	\$ -	\$ (702)	\$ (702)
Balance at February 2, 2020	\$ 754	\$ (981)	\$ (227)
Net change in fair value of cash flow hedges (net of tax of \$3,229)	8,815	-	8,815
Transfer of realized loss on cash flow hedges to inventory (net of tax of \$79)	218	-	218
Reclassification of cash flow hedges from OCI to foreign exchange gain within finance income (net of tax of \$3,583) (note 15)	(9,787)	-	(9,787)
Change in foreign currency translation differences	-	(53)	(53)
Balance at October 31, 2020	\$ -	\$ (1,034)	\$ (1,034)

Dividends

No dividends were declared or paid during the 13 and 39 weeks ended October 30, 2021 and October 31, 2020.

14. SHARE-BASED PAYMENTS

On April 19, 2021, the share option plan was amended to terminate the Share Appreciation Rights (“SARs”) program and, in compliance with the policies of the TSX Venture Exchange, transition to a fixed plan that limits the eligible amount of Class A non-voting shares that can be issued pursuant to the exercise of options to 3,500,000. No SARs had been granted or were outstanding as of the date of termination of the program. Those changes had no impact on these unaudited condensed consolidated interim financial statements. Further details regarding the share option plan can be found in the Company’s audited annual consolidated financial statements for the year ended January 30, 2021.

No share option awards were granted during the 13 and 39 weeks ended October 30, 2021 and October 31, 2020. No share-based compensation costs related to previously-granted share options were recognized during the 13 and 39 weeks ended October 30, 2021 (\$2 and \$7 for the 13 and 39 weeks ended October 31, 2020, respectively).

No Performance Share Units (“PSUs”) were granted and no share-based compensation costs related to PSUs were recognized during the 13 and 39 weeks ended October 30, 2021 and October 31, 2020.

15. INCOME TAX

In the interim periods, the income tax provision is based on an estimate of the earnings that will be generated in a full year. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. For the 13 and 39 weeks ended October 30, 2021, the current tax recovery is mainly comprised of adjustments in respect to prior periods net of the income tax provision related to the operations of a foreign subsidiary.

16. FINANCE INCOME AND FINANCE COSTS

	For the 13 weeks ended		For the 39 weeks ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Interest income	\$ 94	\$ 146	\$ 230	\$ 372
Foreign exchange gain ⁽¹⁾	629	55	1,346	11,740
Finance income	723	201	1,576	12,112
Interest expense on lease liabilities	889	1,406	3,056	4,373
Finance costs	889	1,406	3,056	4,373
Net finance (costs) income	\$ (166)	\$ (1,205)	\$ (1,480)	\$ 7,739

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

17. EARNINGS (LOSS) PER SHARE

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

	For the 13 weeks ended		For the 39 weeks ended	
	October 30, 2021	October 31, 2020	October 30, 2021	October 31, 2020
Weighted average number of shares – basic and diluted	48,867	48,867	48,867	48,867

All share options were excluded from the calculation of diluted earnings (loss) per share for the 13 and 39 weeks ended October 30, 2021 and October 31, 2020 as these options were deemed to be anti-dilutive.

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

18. SUPPLEMENTARY CASH FLOW INFORMATION

	October 30, 2021	October 31, 2020	January 30, 2021
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	\$ 2,025	\$ 1,715	\$ 1,874

19. FINANCIAL INSTRUMENTS

Accounting classification and fair values

The Company has determined that the fair value of its current financial assets and liabilities at October 30, 2021, October 31, 2020 and January 30, 2021 (other than liabilities subject to compromise) approximates their respective carrying amounts as at the reporting dates because of the short-term nature of those financial instruments. The fair value of the liabilities subject to compromise is not determinable at the date of these condensed consolidated interim financial statements. See note 22, *Plan of Arrangement under CCAA*.

There were no transfers between levels of the fair value hierarchy for the periods ended October 30, 2021, October 31, 2020 and January 30, 2021.

Derivative financial instruments

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

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

No foreign exchange contracts were outstanding as at October 30, 2021, October 31, 2020 and January 30, 2021.

20. FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the 39 weeks ended October 31, 2020 from those described in the Company's audited annual consolidated financial statements for the year ended February 1, 2020 with exception to the following:

Liquidity Risk

As at October 30, 2021, the Company had access to an interim ("DIP Loan") financing with a Canadian financial institution consisting of a revolving credit facility. The Company secured this DIP Loan subsequent to obtaining the Order from the Court to seek protection from its creditors under CCAA as described in note 2(b). On May 14, 2021, the Company amended its DIP Loan reducing the revolving credit facility from \$60,000 to \$30,000 (including facilities available for securing letters of credit of up to \$5,000 (or its U.S. dollar equivalent)). This amendment was approved by the Court on May 25, 2021. As at October 30, 2021, no amount was drawn down on the DIP loan and no amount of the demand operating lines of credit was committed for documentary and standby letters of credit.

Subsequent to October 30, 2021, the Company entered into a binding commitment with a Canadian financial institution to secure an asset-based revolving credit facility of up to \$115,000. See note 22.

21. IMPAIRMENT OF NON-FINANCIAL ASSETS

At October 30, 2021, the Company tested for impairment certain CGUs for which there were indications that their carrying amounts may not be recoverable, which resulted in no impairment losses recognized related to right-of-use assets and property and equipment (\$1,349 and \$7,690 related to right-of-use assets and \$3,179 and \$5,081 related to property and equipment for the 13 and 39 weeks ended October 31, 2020, respectively).

Recoverable amounts of the CGUs tested for impairment were based on their estimated value-in-use, which was determined using a cash flow model developed by the Company for each individual store locations discounted using a pre-tax discount rate of 20.0% (October 31, 2020 – 20.0%). The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU. Sales forecasts for cash flows considered the weighted average impact of multiple scenarios based on operating results and internal forecasts prepared by management. A 1% increase or decrease in the discount rate does not materially change the results of the tests.

During the 13 and 39 weeks ended October 30, 2021, asset impairment charges of \$121 and \$628, respectively, were reversed following an improvement in profitability of certain CGU's (nil for the 13 and 39 weeks ended October 31, 2020).

22. SUBSEQUENT EVENTS

Commitment Letter for Credit Facility

On November 23, 2021, the Company entered into a binding commitment letter with a Canadian financial institution to secure an asset-based revolving facility of up to \$115,000. This committed facility shall be used to finance any amounts payable by the Company under the Plan of Arrangement under CCAA, to replace the DIP Loan and to finance the ongoing operations of the Company.

Plan of Arrangement under CCAA

On November 26, 2021, the Company obtained authorization from the Court to file its Plan of Arrangement (“the Plan”) under CCAA and to call a creditors’ meeting to be held on December 21, 2021. The Plan provides that the Company will distribute an aggregate amount of \$95,000 to its creditors in full and final settlement of all claims affected by the Plan.