

REITMANS

(CANADA) LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the 13 and 39 weeks ended October 30, 2021 and the audited annual consolidated financial statements for the fiscal year ended January 30, 2021 and the notes thereto which are available on the SEDAR website at www.sedar.com. This MD&A is dated December 16, 2021.

All financial information contained in this MD&A and Reitmans' unaudited condensed consolidated interim financial statements has been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), as issued by the International Accounting Standards Board ("IASB"). All monetary amounts shown in the tables in this MD&A are in millions of Canadian dollars unless otherwise indicated, except per share and strike price amounts. The unaudited condensed consolidated interim financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on December 16, 2021.

Unless otherwise indicated, all comparisons of results for the 13 weeks ended October 30, 2021 ("third quarter of 2022") are against results for the 13 weeks ended October 31, 2020 ("third quarter of 2021") and all comparisons of results for the 39 weeks ended October 30, 2021 ("year to date fiscal 2022") are against results for the 39 weeks ended October 31, 2020 ("year to date fiscal 2021"). Additional information about Reitmans is available on the Company's website at www.reitmanscanadalimited.com or on the SEDAR website at www.sedar.com.

COVID-19 and Other Key Company Updates

The COVID-19 pandemic continues to have a significant impact on the Company's results. At the beginning of fiscal 2022, the Company had 240 out of its 415 stores (58%) closed as a consequence of governmental lockdown directives. This partial lockdown of the Company's retail store network continued into the first quarter of 2022. Even though restrictions were relaxed and some stores reopened, in April 2021 a "third wave" resulting in increased COVID-19 cases required some further governmental lockdowns. By the end of June 2021, all temporarily closed stores impacted by the "third wave" governmental lockdowns had reopened. During the third quarter of 2022, similar to the third quarter of 2021, there were no store closures in the Company's retail store network as a consequence of governmental lockdown directives. During the year to date fiscal 2021, all of the Company's stores were closed for 55 consecutive days from the start of the "first wave" of governmental lockdowns. During the second quarter of 2021, the Company had a phased reopening of its stores and by the end of June 2020, all of the Company's stores were open for business. During partial or full lockdowns, the Company continued to fulfill e-commerce orders though sales were not sufficient to offset the lost sales due to the closures. In June 2021, the Company implemented its buy online pick up in store ("BOPIS") initiative to enhance its customers' omnichannel experience and reduce freight costs on fulfilling ecommerce orders. Since BOPIS only started in June 2021, the impact on the Company's operating results for the third quarter of 2022 and year to date fiscal 2022 was minimal in relation to freight costs.

During the year to date fiscal 2022, the Company's measures to protect its financial situation continued to include furloughing retail sales associates during temporary store closures and obtaining financial assistance from federal programs, such as the Canada Emergency Wage

Subsidy (“CEWS”) and the Canada Emergency Rent Subsidy (“CERS”). Such measures and financial assistance mitigated the financial impact of COVID-19 on the Company’s business.

The extent to which COVID-19 and its variants will continue to impact the Company’s business, including its supply chain, consumer shopping behavior and consumer demand, including online shopping, 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 other 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. As the Company navigates through the challenges caused by COVID-19 and its variants, its focus will be to adapt to customers’ changing product preferences, closely monitor its cash position and control its spending, while managing its inventory levels in line with the change in demand behavior since COVID-19 started. Current financial information may not necessarily be indicative of future operating results.

On May 19, 2020, the Company obtained an initial order (the “Order”) from the Superior Court of Québec (the “Court”) to seek protection from creditors under the Companies’ Creditors Arrangement Act (the “CCAA”) and Ernst & Young Inc. was appointed as the Monitor. Since its initial filing on May 19, 2020, the Company obtained five extensions of the Order, with the most recent extension obtained until January 28, 2022. The CCAA process allowed the Company to implement an operational and commercial restructuring plan which included the closure of the Thyme Maternity and Addition Elle banners (see section entitled “Discontinued Operations”). In August 2020, the Company had secured interim financing (“DIP Loan”) up to a maximum amount of \$60.0 million, including facilities available for securing letters of credit of up to \$5.0 million, with a Canadian financial institution. On May 25, 2021, the Company obtained the Court’s approval to reduce the DIP Loan facility from \$60.0 million to \$30.0 million. As of October 30, 2021, the Company had not drawn funds from the DIP Loan facility. With the uncertainties surrounding the impact of COVID-19 and its variants going forward, the Company cannot guarantee that the DIP Loan will not be utilized in the future. The Company continues to make progress in the CCAA process with the assistance of the Monitor. On November 23, 2021, the Company entered into a binding commitment letter with respect to a senior secured asset-based revolving facility of up to \$115.0 million with a Canadian financial institution. The committed facility shall be used to finance any amounts payable by the Company under the Plan of Arrangement, to replace the DIP Loan facility and to finance the ongoing operations of the Company. On November 26, 2021, the Company obtained authorization from the Court to file its Plan of Arrangement 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 approximately \$95.0 million to its creditors in full and final settlement of all claims affected by the Plan. All documents relating to the CCAA process, including the Plan of Arrangement, are available at www.ey.com/ca/Reitmans. The Company expects to continue to make announcements as further material progress is made.

These factors and conditions, combined with the unpredictability of the outcome of the matters arising from the CCAA proceedings, indicate that a material uncertainty exists that may cast significant doubt about the Company’s ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business.

The unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations for the foreseeable future and will 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. The unaudited condensed consolidated interim financial statements as at 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. It is not possible to reliably estimate the length and severity of COVID-19 and its variants and the impact on the financial results and financial condition of the Company in future periods. The Company will take into consideration the most recent developments and impacts of the pandemic, including updated assessments of future cash flows and any additional impacts resulting from COVID-19 will be reflected in the financial results of the current fiscal year, if applicable.

Discontinued Operations

As part of its restructuring plan, the Company closed the Thyme Maternity and Addition Elle banners during the year ended January 30, 2021 and, as a result, these results and cash flows have been classified as discontinued operations. IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires that the comparative statements of earnings (loss) and comprehensive income (loss) be presented as if the operations were discontinued from the start of the comparative year. As a result, discontinued operations are excluded from the net earnings (loss) from continuing operations and are presented as earnings (loss) from discontinued operations, net of tax, as a separate line item in the consolidated statements of earnings (loss).

FORWARD-LOOKING STATEMENTS

All of the statements contained herein, other than statements of fact that are independently verifiable at the date hereof, are forward-looking statements. Such statements, based as they are on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown, many of which are beyond the Company's control, including statements regarding the impact of COVID-19 on the Company's business, financial position and operations, and are based on several assumptions which give rise to the possibility that actual results could differ materially from the Company's expectations expressed in or implied by such forward-looking statements and that the objectives, plans, strategic priorities and business outlook may not be achieved. Consequently, the Company cannot guarantee that any forward-looking statement will materialize, or if any of them do, what benefits the Company will derive from them. Forward-looking statements are provided in this MD&A for the purpose of giving information about management's current expectations and plans as of the date of this MD&A, and allowing investors and others to get a better understanding of the Company's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose. Forward-looking statements are based upon the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and currently expected future developments, as well as other factors it believes, are appropriate in the circumstances.

This MD&A contains forward-looking statements about the Company's objectives, plans, goals, expectations, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the Company's belief in its strategies and its brands and their capacity to generate long-term profitable growth, future liquidity, planned capital expenditures, amount of pension plan contributions, status and impact of systems implementation, the ability of the Company to successfully implement its strategic initiatives and cost reduction and productivity improvement initiatives as well as the impact of such initiatives. These specific forward-looking statements are contained throughout this MD&A including those listed in the "Operating Risk Management" and "Financial Risk Management" sections of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

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

- the ability to continue as a going concern;
- the outcome of the CCAA proceedings and their impact upon supplier relationships and customer behavior;
- foreign currency fluctuations, including high levels of volatility of the Canadian dollar in relation to the US dollar;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates, interest rates, currency exchange rates or derivative prices;
- significant economic disruptions caused by global health risks (such as COVID-19) that influence sanitary measures (such as confinement and store closures), consumer demand and hamper the ability to get merchandise on a timely basis;
- changes in product costs and supply channels, including disruption of the Company's supply chain resulting from COVID-19;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- the changing consumer preferences toward e-commerce, online retailing and the introduction of new technologies;
- seasonality and weather;
- the inability of the Company's information technology ("IT") infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cyber security or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrinkage;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies associated with the Company's major initiatives, including those from restructuring; and
- changes in the Company's income, capital, property and other tax and regulatory liabilities, including changes in tax laws, regulations or future assessments.

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

NON-GAAP FINANCIAL MEASURES

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

In addition to discussing earnings in accordance with IFRS, this MD&A provides adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) as a non-GAAP financial measure. Adjusted EBITDA is defined as net earnings (loss) before income tax expense/recovery, interest income, interest expense, depreciation, amortization, impairment of non-financial assets and restructuring costs. With the classification of the Addition Elle and Thyme Maternity businesses as discontinued operations, Adjusted EBITDA has also been modified to exclude discontinued operations.

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

The Company uses a key performance indicator (“KPI”), comparable sales, to assess store performance and sales growth. The Company engages in an omnichannel approach in connecting with its customers by appealing to their shopping habits through either online or store channels. This approach allows customers to shop online for home delivery or to pick up in store, purchase in any of our store locations or ship to home from another store when the products are unavailable in a particular store. Due to customer cross-channel behavior, the Company reports a single comparable sales metric, inclusive of store and e-commerce channels. Comparable sales are defined as sales generated by stores that have been continuously open during both of the periods being compared and include e-commerce sales. The comparable sales metric compares the same calendar days for each period. Although this KPI is expressed as a ratio, it is a non-GAAP financial measure that does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Management uses comparable sales in evaluating the performance of stores and online sales and considers it useful in helping to determine what portion of new sales has come from sales growth and what portion can be attributed to the opening of new stores. Comparable sales is a measure widely used amongst retailers and is considered useful

information for both investors and analysts. Comparable sales should not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS.

As highlighted in the section entitled “COVID-19 and Other Key Company Updates”, at various times throughout the year to date fiscal 2022, the Company was required to temporary close some of its retail stores as a consequence of governmental lockdown directives. Due to the unprecedented nature of COVID-19 and its significant impact on consumers and our ability to service our customers, management believes that comparable sales are not currently representative of the underlying trends of our business and consequently would not provide a meaningful metric in comparisons of year-over-year sales results. Accordingly, this MD&A does not include a discussion of the Company’s comparable sales in respect of the third quarter of and year to date fiscal 2022. Management will continue to monitor and evaluate the effects of COVID-19 and will resume the evaluation of comparable sales when year-over-year results are more representative.

The following table reconciles net earning (loss) from continuing operations to Adjusted EBITDA from continuing operations:

	For the third quarter of		Year to date fiscal	
	2022	2021	2022	2021
Net earnings (loss) from continuing operations	\$ 22.0	\$ (14.9)	\$ 45.9	\$ (89.1)
Depreciation and amortization	11.6	13.7	36.3	50.3 ¹
(Reversal of) impairment of non-financial assets	(0.1)	4.5	(0.6)	12.8
Interest income	(0.1)	(0.1)	(0.2)	(0.4)
Interest expense on lease liabilities	1.0	1.4	3.1	4.4
Income tax (recovery) expense	(0.6)	0.2	(0.4)	0.7
Restructuring costs (gains), net	(0.3)	1.6 ²	(12.7)	25.1 ²
Adjusted EBITDA from continuing operations	\$ 33.5	\$ 6.4	\$ 71.4	\$ 3.8
Adjusted EBITDA from continuing operations as % of Sales	18.8%	3.9%	15.1%	1.0%

¹ The comparative figure has been increased by \$11.5 million for the year to date fiscal 2021 to properly record depreciation and amortization expense between continuing and discontinued operations. See Note 4 of the unaudited condensed consolidated interim financial statements for the year to date fiscal 2022.

² In order to conform to the year to date fiscal 2022 presentation, comparative figures have been decreased by \$2.2 million for the third quarter of 2021 and the year to date fiscal 2021 due to a reclassification of rent and occupancy costs recovered on lease re-negotiations to restructuring costs (gains), net. See Note 11 of the unaudited condensed consolidated interim financial statements for the year to date fiscal 2022.

OVERVIEW

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



The Reitmans banner, operating stores averaging 4,700 sq. ft., is one of Canada's largest women's apparel specialty chains and a leading fashion brand. Reitmans has developed strong customer loyalty through superior service, insightful marketing and quality merchandise.

PENNINGTONS

Penningtons is a leader in the Canadian plus-size market, offering trend-right styles and affordable quality for plus-size fashion sizes 12–32. Penningtons operates stores averaging 6,000 sq. ft. in power centres across Canada.



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

RETAIL BANNERS

	Number of stores at January 30, 2021	Q2 Closings	Q3 Openings	Q3 Closings	Number of stores at October 30, 2021	Number of stores at October 31, 2020
Reitmans	245	(3)	-	-	242	247
Penningtons	92	(1)	3	(1)	93	92
RW&CO.	78	-	1	(1)	78	79
Total stores from continuing operations	415	(4)	4	(2)	413	418

Individual store closings take place for a variety of reasons as the viability of each store and its location is constantly monitored and assessed for continuing profitability. In most cases when a store is closed, merchandise at that location is sold off in the normal course of business and any unsold merchandise remaining at the closing date is generally transferred to other stores operating under the same banner for sale in the normal course of business. Subsequent to the end of the third quarter of 2022, the Company closed one Reitmans store. As of the date of this MD&A, the Company has 412 stores.

OPERATING RESULTS FOR THE THIRD QUARTER OF 2022 COMPARED TO THE THIRD QUARTER OF 2021

	Third Quarter of 2022	Third Quarter of 2021	\$ Change	% Change
Sales	\$ 178.2	\$ 163.4	\$ 14.8	9.1%
Cost of goods sold	76.8	81.8	(5.0)	(6.1)%
Gross profit	101.4	81.6	19.8	24.3%
Gross profit %	56.9%	49.9%		
Selling, distribution and administrative expenses ¹	79.8	95.1	(15.3)	(16.1)%
Results from operating activities	21.6	(13.5)	35.1	n/a
Net finance costs	(0.2)	(1.2)	1.0	(83.3)%
Earnings (loss) before income taxes	21.4	(14.7)	36.1	n/a
Income tax (recovery) expense	(0.6)	0.2	(0.8)	n/a
Net earnings (loss) from continuing operations	22.0	(14.9)	36.9	n/a
Earnings from discontinued operations, net of tax	4.8	0.4	4.4	n/a
Net earnings (loss)	\$ 26.8	\$ (14.5)	\$ 41.3	n/a
Adjusted EBITDA from continuing operations ²	\$ 33.5	\$ 6.4	\$ 27.1	n/a
Earnings (loss) per share:				
Basic	\$ 0.55	\$ (0.30)	\$ 0.85	n/a
Diluted	0.55	(0.30)	0.85	n/a
Earnings (loss) per share, continuing operations:				
Basic	\$ 0.45	\$ (0.31)	\$ 0.76	n/a
Diluted	0.45	(0.31)	0.76	n/a

¹ Includes a reversal of impairment of non-financial assets of \$0.1 million and a restructuring costs recovery of \$0.3 million for the third quarter of 2022 (an impairment charge of non-financial assets and restructuring costs of \$4.5 million and \$1.6 million, respectively, for the third quarter of 2021).

² In order to conform to the year to date fiscal 2022 presentation, the comparative figure for the third quarter of 2021 has been decreased by \$2.2 million due to a reclassification of rent and occupancy costs recovered on lease re-negotiations to restructuring costs (gains), net. See Note 11 of the unaudited condensed consolidated interim financial statements for the year to date fiscal 2022.

Sales

Sales for the third quarter of 2022 increased by \$14.8 million, or 9.1%, to \$178.2 million, primarily due to an increase in store traffic and number of transactions, as customers transitioned back to a “brick and mortar” shopping experience.

Gross Profit

Gross profit for the third quarter of 2022 increased \$19.8 million to \$101.4 million as compared with \$81.6 million for the third quarter of 2021. Gross profit as a percentage of sales for the third quarter of 2022 increased to 56.9% from 49.9% for the third quarter of 2021. The increase both in gross profit and as a percentage of sales is primarily attributable to lower markdowns and promotional activity in the third quarter of 2022 combined with a favourable foreign exchange impact on U.S. dollar denominated purchases included in cost of goods sold, partially offset by higher merchandise freight costs as the global shipping industry disruption required an increased usage of air freight shipments to meet customer demand.

Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses of \$79.8 million for the third quarter of 2022 decreased by \$15.3 million or 16.1%, as compared to the third quarter of 2021, which is primarily attributable to the following:

- decreased store operating costs due primarily to improved lease arrangements from lease re-negotiations and fewer number of stores, partially offset by an increase in store personnel wages and higher digital media advertising spend;
- a \$1.9 million decrease in restructuring costs due primarily to the \$1.6 million restructuring charge incurred during the third quarter of 2021 as compared to a restructuring costs recovery of \$0.3 million realized during the third quarter of 2022 (see Note 11 of the unaudited condensed consolidated interim financial statements for the third quarter of 2022);
- a \$2.1 million decrease in depreciation and amortization due primarily to the decrease in the number of stores and related right-of-use assets and the reduction of investments in property and equipment and intangible assets since the outbreak of the pandemic;
- a \$4.6 million decrease in impairment of non-financial assets given the Company's re-assessment of anticipated profitability of individual retail store locations;
- a \$1.1 million decrease in overall freight costs due primarily to customers transitioning back to a "brick and mortar" shopping experience;

partially offset by,

- a \$5.1 million decrease in total combined financial support from the CEWS and the CERS programs for which such financial support has been recognized as a reduction of selling, distribution and administrative expenses.

Net Finance Costs

Net finance costs were \$0.2 million for the third quarter of 2022 as compared to net finance costs of \$1.2 million for the third quarter of 2021. The change of \$1.0 million is primarily attributable to:

- an increase of \$0.6 million in foreign exchange gain due to the foreign exchange impact on U.S. denominated monetary assets and liabilities, partially offset by;
- a decrease of \$0.5 million in interest expense on lease liabilities as a result of the Company's negotiations and the resulting changes to lease arrangements (i.e. fixed to variable lease) with some landlords.

Income Taxes

The tax recovery is comprised mainly of adjustments in respect of prior year periods net of the estimated tax amount related to a foreign subsidiary. As a result of the uncertainties related to the Company's ability to generate future profitable operations and management's assessment that it is not probable that future taxable profits will be available, the Company has not recognized deferred tax assets on all temporary differences and operating losses carried forward relating to its Canadian based operations.

Net Earnings (Loss) from Continuing Operations

Net earnings from continuing operations for the third quarter of 2022 was \$22.0 million (\$0.45 basic and diluted earnings per share) as compared with a \$14.9 million net loss (\$0.31 basic and diluted loss per share) for the third quarter of 2021. The increase in net earnings from continuing operations of \$36.9 million is primarily attributable to the increase in gross profit, a decrease in overall operating costs, an increase in tax recovery and a decrease in net finance costs, as noted above.

Adjusted EBITDA from Continuing Operations

Adjusted EBITDA from continuing operations for the third quarter of 2022 was \$33.5 million as compared with \$6.4 million for the third quarter of 2021. The increase of \$27.1 million is attributable to the increase of \$19.8 million in gross profit, a decrease in operating costs (excluding restructuring costs recovery, depreciation, amortization and impairment of non-financial assets) of \$6.7 million and an increase of \$0.6 million in foreign exchange gain, as noted above.

Net Earnings (Loss) from Discontinued Operations

As highlighted in the section entitled “Discontinued Operations”, the Company, as part of its restructuring plan, closed the Thyme Maternity and Addition Elle banners in the year ended January 30, 2021.

The financial information presented within discontinued operations is directly attributable to both banners. All administrative expenses and various selling and distribution expenses from shared, centralized and common functions of the Company are excluded from the determination of net earnings (loss) from discontinued operations.

Net earnings from discontinued operations for the third quarter of 2022 was \$4.8 million as compared to net earnings from discontinued operations of \$0.4 million for the third quarter of 2021. As the discontinued banners were no longer in operation during the third quarter of 2022, the net earnings of \$4.8 million was due to an adjustment to the provision for disclaimed leases reflecting the most recent settlement discussions with certain landlords and the total liabilities subject to compromise under the Plan of Arrangement (see section entitled “COVID-19 and Other Key Company Updates”).

Further financial information can be found in Notes 4 and 11 of the the unaudited condensed consolidated interim financial statements as at and for the third quarter of 2022.

OPERATING RESULTS FOR THE YEAR TO DATE FISCAL 2022 COMPARED TO THE YEAR TO DATE FISCAL 2021

	Year to Date Fiscal 2022	Year to Date Fiscal 2021	\$ Change	% Change
Sales	\$ 471.7	\$ 388.7	\$ 83.0	21.4%
Cost of goods sold	214.7	207.3	7.4	3.6%
Gross profit	257.0	181.4	75.6	41.7%
Gross profit %	54.5%	46.7%		
Selling, distribution and administrative expenses ¹	210.0	277.6	(67.6)	(24.4)%
Results from operating activities	47.0	(96.2)	143.2	n/a
Net finance (costs) income	(1.5)	7.8	(9.3)	n/a
Earnings (loss) before income taxes	45.5	(88.4)	133.9	n/a
Income tax (recovery) expense	(0.4)	0.7	(1.1)	n/a
Net earnings (loss) from continuing operations	45.9	(89.1)	135.0	n/a
Earnings (loss) from discontinued operations, net of tax	15.0	(72.2)	87.2	n/a
Net earnings (loss)	\$ 60.9	\$ (161.3)	\$ 222.2	n/a
Adjusted EBITDA from continuing operations ²	\$ 71.4	\$ 3.8	\$ 67.6	n/a
Earnings (loss) per share:				
Basic	\$ 1.25	\$ (3.30)	\$ 4.55	n/a
Diluted	1.25	(3.30)	4.55	n/a
Earnings (loss) per share, continuing operations:				
Basic	\$ 0.94	\$ (1.82)	\$ 2.76	n/a
Diluted	0.94	(1.82)	2.76	n/a

¹ Includes a reversal of impairment of non-financial assets of \$0.6 million and a restructuring costs recovery of \$12.7 million for the year to date fiscal 2022 (an impairment charge of non-financial assets and restructuring costs of \$12.8 million and \$25.1 million, respectively, for the year to date fiscal 2021).

² The comparative figure has been increased by \$9.3 million due to an increase of \$11.5 million for the year to date fiscal 2021 to properly record depreciation and amortization expense between continuing and discontinued operations (see Note 4 of the unaudited condensed consolidated interim financial statements for the year to date fiscal 2022), partially offset by a decrease of \$2.2 million for the year to date fiscal 2021 due to a reclassification of rent and occupancy costs recovered on lease re-negotiations to restructuring costs (gains), net (see Note 11 of the unaudited condensed consolidated interim financial statements for the year to date fiscal 2022).

Sales

Sales for year to date fiscal 2022 increased by \$83.0 million, or 21.4%, to \$471.7 million, primarily due to the Company's store network operating capacity being closed for far fewer total number of days while under partial lockdowns during the year to date fiscal 2022 as compared to a phased store re-opening from full lockdowns during the year to date fiscal 2021, resulting in an increase in store traffic and number of transactions, with customers transitioning back to a "brick and mortar" shopping experience and an increase in the Company's e-commerce sales.

Gross Profit

Gross profit for the year to date fiscal 2022 increased \$75.6 million, or 41.7%, to \$257.0 million as compared with \$181.4 million for the year to date fiscal 2021. Gross profit as a percentage of sales for the year to date fiscal 2022 increased to 54.5% from 46.7% for the year to date fiscal 2021. The increase both in gross profit and as a percentage of sales is primarily attributable to lower markdowns and promotional activity in the year to date fiscal 2022 combined with a favourable foreign exchange impact on U.S. dollar denominated purchases included in cost of goods sold, partially offset by higher merchandise freight costs as the global shipping industry disruption required an increased usage of air freight shipments to meet customer demand.

Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses for the year to date fiscal 2022 decreased by \$67.6 million, as compared to the same period in the prior year, which is primarily attributable to the following:

- a decrease of \$37.8 million in restructuring costs due primarily to the \$25.1 million restructuring charge incurred during the year to date fiscal 2021 compared to a restructuring costs recovery of \$12.7 million realized during the year to date fiscal 2022 mainly from favourable rent related retroactive adjustments totalling \$11.0 million resulting from the finalization of the lease re-negotiations of certain of the Company's stores locations, \$ 5.1 million of gains from lease re-measurements and an adjustment of \$4.3 million to the provision for disclaimed leases reflecting the most recent settlement discussions with certain landlords and the Plan of Arrangement, net of professional and other restructuring fees (see Note 11 of the unaudited condensed consolidated interim financial statements for the year to date fiscal 2022);
- a \$14.0 million decrease in depreciation and amortization due primarily to the decrease in the number of stores and related right-of-use assets and the reduction of investments in property and equipment and intangible assets since the outbreak of the pandemic;
- a \$13.4 million decrease in impairment of non-financial assets given the Company's re-assessment of anticipated profitability of individual retail store locations;
- a \$2.5 million decrease in overall freight costs incurred due primarily to a \$1.9 million non-recurring volume rebate received from a local transport supplier and a \$0.6 million decrease in overall freight costs as the fulfillment of ecommerce orders during the year to date fiscal 2022 decreased;
- decreased store operating costs due primarily to improved lease arrangements from lease re-negotiations and fewer number of stores, partially offset by an increase in store personnel wages and higher digital media advertising spend;
partially offset by,
- a \$8.2 million decrease in total combined financial support from the CEWS and the CERS programs for which such financial support has been recognized as a reduction of selling, distribution and administrative expenses.

Net Finance (Costs) Income

Net finance costs were \$1.5 million for the year to date fiscal 2022 as compared to net finance income of \$7.8 million for the year to date fiscal 2021. The change of \$9.3 million is primarily attributable to the following:

- a decrease of \$10.4 million in foreign exchange gain, largely attributable to a \$ 9.7 million realized gain on the maturity and disposal of foreign exchange forward contracts that were no longer being

designated as cash flow hedges that was recognized during the year to date fiscal 2021 and to the foreign exchange impact on U.S. denominated monetary assets and liabilities;

partially offset by,

- a decrease of \$1.3 million in interest expense on lease liabilities as a result of the Company's negotiations and the resulting changes to lease arrangements (i.e. fixed to variable lease) with some landlords.

Income Taxes

The tax recovery is comprised mainly of adjustments in respect of prior year periods net of the estimated tax amount related to a foreign subsidiary. As a result of the uncertainties related to the Company's ability to generate future profitable operations and management's assessment that it is not probable that future taxable profits will be available, the Company has not recognized deferred tax assets on all temporary differences and operating losses carried forward relating to its Canadian based operations.

Net Earnings (Loss) from Continuing Operations

Net earnings from continuing operations for the year to date fiscal 2022 was \$45.9 million (\$0.94 basic and diluted earnings per share) as compared with a net loss of \$89.1 million (\$1.82 basic and diluted loss per share) for the year to date fiscal 2021. The increase in net earnings from continued operations of \$135.0 million is primarily attributable to the increase in gross profit, a decrease in overall operating costs and an increase in tax recovery, partially offset by an increase in net finance costs, as noted above.

Adjusted EBITDA from Continuing Operations

Adjusted EBITDA from continuing operations for the year to date fiscal 2022 was \$71.4 million as compared to \$3.8 million for the year to date fiscal 2021. The increase of \$67.6 million is attributable to the increase of \$75.6 million in gross profit, a decrease in operating costs (excluding restructuring costs, depreciation, amortization and impairment of non-financial assets) of \$2.4 million, partially offset by a decrease of \$10.4 million in foreign exchange gain, as noted above.

Net Earnings (Loss) from Discontinued Operations

As highlighted in the section entitled "Discontinued Operations", the Company, as part of its restructuring plan, closed the Thyme Maternity and Addition Elle banners in the year ended January 30, 2021.

The financial information presented within discontinued operations is directly attributable to both banners. All administrative expenses and various selling and distribution expenses from shared, centralized and common functions of the Company are excluded from the determination of net earnings (loss) from discontinued operations.

Net earnings from discontinued operations for the year to date fiscal 2022 was \$15.0 million as compared to a net loss from discontinued operations of \$72.2 million for the year to date fiscal 2021. As the discontinued banners were no longer in operation during the year to date fiscal 2022, the net earnings of \$15.0 million was due to an adjustment to the provision for disclaimed leases reflecting the most recent settlement discussions with certain landlords and the total liabilities subject to compromise under the Plan of Arrangement.

Further financial information can be found in Notes 4 and 11 of the the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2022.

SUMMARY OF QUARTERLY RESULTS

The results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. The table below presents selected consolidated financial data for the eight most recently completed quarters. All references to “2022” are to the Company’s fiscal year ending January 29, 2022, “2021” are to the Company’s fiscal year ended January 30, 2021 and “2020” are to the Company’s fiscal year ended February 1, 2020.

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2022	2021	2022	2021	2022	2021 ¹	2021	2020 ¹
Sales	\$ 178.2	\$ 163.4	\$ 172.3	\$ 144.0	\$ 121.3	\$ 81.3	\$ 144.7	\$ 184.4
Net earnings (loss) from continuing operations	22.0	(14.9)	23.9	(27.4)	(0.0)	(46.7)	(10.9)	(47.2)
Earnings (Loss) from discontinued operations, net of tax	4.8	0.4	10.2	(44.6)	(0.0)	(28.0)	-	(4.5)
Net earnings (loss)	26.8 ²	(14.5) ²	34.1 ³	(72.0) ³	(0.0) ⁴	(74.7) ⁴	(10.9) ⁵	(51.7)
Earnings (Loss) per share								
Basic	\$ 0.55 ²	\$ (0.30) ²	\$ 0.70 ³	\$ (1.47) ³	\$ (0.00) ⁴	\$ (1.53) ⁴	\$ (0.22) ⁵	\$ (1.06)
Diluted	0.55 ²	(0.30) ²	0.70 ³	(1.47) ³	(0.00) ⁴	(1.53) ⁴	(0.22) ⁵	(1.06)
Earnings (Loss) per share, continuing operations:								
Basic	\$ 0.45	\$ (0.31)	\$ 0.49	\$ (0.56)	\$ (0.00)	\$ (0.96)	\$ (0.22)	\$ (0.97)
Diluted	0.45	(0.31)	0.49	(0.56)	(0.00)	(0.96)	(0.22)	(0.97)

¹ Comparative figures have been restated to separately present continuing and discontinued operations.

² During the third quarter of 2022, net earnings includes the impact of wage and rent subsidies totalling \$1.6 million, restructuring costs recovery of \$5.1 million and a reversal of impairment on non-financial assets of \$0.1 million. During the third quarter of 2021, net loss includes the impact of an impairment of non-financial assets of \$5.2 million, restructuring costs of \$2.6 million, partially offset by \$6.8 million of wage subsidy.

³ During the second quarter of 2022, net earnings includes the impact of wage and rent subsidies totalling \$6.1 million, restructuring costs recovery of \$16.1 million and a reversal of impairment on non-financial assets of \$0.3 million. During the second quarter of 2021, net loss includes the impact of an impairment of non-financial assets of \$9.0 million, restructuring costs of \$74.2 million, partially offset by \$14.8 million of wage subsidy.

⁴ During the first quarter of 2022, net loss includes the impact of wage and rent subsidies totalling \$10.3 million, restructuring costs recovery of \$6.6 million and a reversal of impairment on non-financial assets of \$0.2 million. During the first quarter of 2021, net loss includes the impact of an impairment of non-financial assets of \$20.6 million, additional provision for valuation of inventory of \$18.3 million partially offset by \$11.6 million of a net unrealized foreign exchange gain on reclassification of foreign contracts and \$6.6 million of wage subsidy.

⁵ Includes the impact of an impairment of non-financial assets of \$9.1 million, restructuring costs of \$0.8 million, partially offset by \$3.8 million of wage subsidy.

BALANCE SHEET

Selected line items from the Company's balance sheets as at October 30, 2021 and January 30, 2021 are presented below:

	October 30, 2021	January 30, 2021	\$ Change	% Change
Cash and cash equivalents	\$ 87.4	\$ 77.9	\$ 9.5	12.2%
Trade and other receivables	6.1	10.7	(4.6)	(43.0)%
Inventories	133.5	96.1	37.4	38.9%
Prepaid expenses and deposits	36.7	32.1	4.6	14.3%
Property and equipment & intangible assets	70.2	76.4	(6.2)	(8.1)%
Right-of-use assets	39.4	103.8	(64.4)	(62.0)%
Trade and other payables	40.7	31.5	9.2	29.2%
Deferred revenue	10.5	12.5	(2.0)	(16.0)%
Income taxes payable	0.7	1.2	(0.5)	(41.7)%
Lease liabilities (current and non-current)	49.7	123.2	(73.5)	(59.7)%
Liabilities subject to compromise	185.6	204.1	(18.5)	(9.1)%

Changes at October 30, 2021 as compared to January 30, 2021 were primarily due to the following:

- cash and cash equivalents increased \$9.5 million due to the cash generated from operations as retail locations reopened during the year to date fiscal 2022 and financial support received from the CEWS and CERS programs, partially offset by higher investments made in property and equipment in the year to date fiscal 2022;
- trade and other receivables decreased primarily due to the timing of receipts of wage and rent subsidies from the Federal government, partially offset by higher insurance claims and credit card receivables;
- inventories are higher primarily due to the normal build-up for the holiday selling season and accelerated merchandise deliveries due to the Company's strategy to mitigate recent global shipping industry disruptions;
- prepaid expenses and deposits are primarily comprised of required supplier deposits and prepayments while the Company is under CCAA protection, prepaid insurance premiums and maintenance contracts. The increase of \$4.6 million is primarily due to the timing of payments with respect to supplier deposits;
- during the year to date fiscal 2022, \$6.9 million had been spent primarily on store renovations and head office hardware and software additions. Depreciation and amortization of \$13.9 million and an impairment reversal of \$0.6 million on property and equipment and intangible assets were recognized in the year to date fiscal 2022 (\$12.8 million of depreciation and amortization and \$18.3 million of impairment charges were recognized in the year to date fiscal 2021);
- right-of-use assets represent the right-to-use the retail stores and certain equipment over their lease terms. Right-of-use assets decreased by \$64.4 million, primarily due to depreciation and amortization and to lease modifications from the Company's re-negotiations of leases that have not been disclaimed and the resulting changes to its lease arrangements (i.e. fixed to variable lease). Depreciation of \$22.3 million were recognized in the year to date fiscal 2022 (\$34.5 million in year to date fiscal 2021) and no impairment charges were recognized in the year to date fiscal 2022 (\$16.5 million in the year to date fiscal 2021);
- trade and other payables increased by approximately \$9.2 million primarily due to an increase in sales tax liabilities and the timing of payments of personnel related liabilities;
- deferred revenue decreased largely due to the timing of gift card redemptions and was partially offset by an increase in awards granted under customer loyalty programs. Deferred revenue consists of unredeemed gift cards, loyalty points and awards granted under customer loyalty programs;

- income taxes payable decreased primarily due to a tax payment made by a foreign subsidiary during the year to date fiscal 2022, partially offset by estimated tax liabilities by a foreign subsidiary;
- lease liabilities represent the present value of the Company's obligations to make lease payments for its store and equipment leases. During the year to date fiscal 2022, lease liabilities decreased by lease payments of \$29.5 million and lease modifications of \$59.1 million, offset by lease additions of \$12.0 million and interest expense of \$3.1 million;
- liabilities subject to compromise consist mainly of amounts owed to creditors (including landlords), ex-employees and beneficiaries of the Company's Supplementary Employee Retirement Pension ("SERP") plan. The amounts are subject to the provisions of the CCAA and are to be settled through a Plan of Arrangement. Liabilities subject to compromise represent the Company's best estimate of liabilities that are subject to the Plan of Arrangement and compromise with the Company's creditors. See Note 11 and Note 22 of the unaudited condensed interim financial statements as at October 30, 2021. The decrease of \$18.5 million is primarily due to an adjustment relating to management's best estimate of the provision for disclaimed leases, which was adjusted to reflect the most recent settlement discussions with certain landlords and the Company's reconciliation of the claims subject to the Plan of Arrangement.

OPERATING AND FINANCIAL RISK MANAGEMENT

Detailed descriptions of the Company's operating and financial risks are included in the Company's annual MD&A for the fiscal year ended January 30, 2021 (which is available on the SEDAR website at www.sedar.com). In addition to the risks described at that time, as highlighted in the section entitled "COVID-19 and Other Key Company Updates", the Company continues to operate under CCAA protection.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

As at October 30, 2021, the Company had current liabilities of \$259.9 million, including liabilities subject to compromise of \$ 185.6 million (October 31, 2020 - \$300.2 million including liabilities subject to compromise of \$203.3 million; January 30, 2021 - \$284.5 million, including liabilities subject to compromise of \$204.1 million) and cash and cash equivalents of \$87.4 million (October 31, 2020 - \$82.7 million; January 30, 2021 - \$77.9 million) and no long-term debt (other than lease liabilities). Cash and cash equivalents are held in interest-bearing accounts mainly with a major Canadian financial institution.

The CCAA process has allowed the Company to implement its operational and commercial restructuring plan to re-position the Company for long-term success. On May 25, 2021, the Company obtained approval to reduce the DIP Loan facility from \$60.0 million to \$30.0 million. The Company to date has not drawn on the DIP Loan facility. On November 23, 2021, the Company entered into a binding commitment letter with respect to a senior secured asset-based revolving facility of up to \$115.0 million with a Canadian financial institution. 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. During the year to date fiscal 2022, the Company's cash inflow from operating activities, after the payment of lease liabilities, was \$18.1 million compared to a cash outflow of \$3.4 million during the year to date fiscal 2021.

In the year to date fiscal 2022, the Company invested \$6.9 million primarily in store renovations and head office hardware and software additions. The Company continues to assess the impact of COVID-19 on its operations and the Plan of Arrangement. Significant investments in capital

expenditures for the remainder of the year ending January 29, 2022 will depend on this assessment and outcome.

FINANCIAL COMMITMENTS

There have been no material changes in the Company's financial commitments from those described in the Company's audited annual consolidated financial statements for the year ended January 30, 2021. As mentioned above, on May 19, 2020, the Company obtained protection under the CCAA. Under the supervision of the Monitor, liabilities in existence as at May 19, 2020, recognized as liabilities subject to compromise in the interim financial statements, have been addressed in the Plan of Arrangement that has been filed and to be voted on at the upcoming December 21, 2021 creditors' meeting. The Plan provides that the Company will distribute an aggregate amount of approximately \$95.0 million to its creditors in full and final settlement of all claims affected by the Plan.

OUTSTANDING SHARE DATA

At December 16, 2021, 13,440,000 Common shares and 35,427,322 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. The Company has 1,126,000 share options outstanding at an average exercise price of \$8.56. Each share option entitles the holder to purchase one Class A non-voting share of the Company at an exercise price established based on the market price of the shares at the date the option was granted.

OFF-BALANCE SHEET ARRANGEMENTS

Derivative Financial Instruments

The Company in its normal course of business must make long lead-time commitments for a significant portion of its merchandise purchases, in some cases as long as twelve months. Most of these purchases must be paid for in U.S. dollars. The Company considered a variety of strategies designed to manage the cost of its continuing U.S. dollar long-term commitments, including spot rate purchases and foreign currency forward contracts with maturities generally not exceeding twelve months and were normally designated as cash flow hedges. During the first quarter of fiscal 2021, future U.S. dollar denominated purchases, hedged by outstanding forward contracts were no longer expected to occur 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. As a result, the Company had reclassified the accumulated unrealized gain associated with these forward contracts from other comprehensive income to net earnings. During the second quarter of 2021, such forward contracts with a notional amount of \$15.0 million U.S. dollars matured and the Company disposed of all remaining forward contracts with a notional amount of \$115.0 million U.S. dollars, resulting in a realized foreign exchange gain of \$9.7 million for the year to date fiscal 2021.

The Company has temporarily paused its hedging program due to the uncertainties surrounding future inventory purchase commitments as a result of COVID-19 and the restructuring plan. There were no foreign exchange contracts outstanding as at October 30, 2021, October 31, 2020 and January 30, 2021.

A forward foreign exchange contract is a contractual agreement to buy or sell a specified currency at a specific price and date in the future. Credit risks exist in the event of failure by a counterparty to

fulfill its obligations. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian chartered banks.

RELATED PARTY TRANSACTIONS

There have been no significant changes in related party transactions from those disclosed in the Company's audited annual consolidated financial statements for the year ended January 30, 2021.

FINANCIAL INSTRUMENTS

The Company uses its cash resources to fund ongoing working capital needs along with capital expenditures. Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, trade and other receivables and foreign currency contracts. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian financial institutions. The Company closely monitors its risk with respect to short-term cash investments.

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

CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

Key Sources of Estimation Uncertainty

There have been no significant changes in the key sources of estimation uncertainty and judgements made in relation to the accounting policies applied as disclosed in the Company's annual MD&A for the year ended January 30, 2021 (which is available on the SEDAR website at www.sedar.com).

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

New amendments to standards and interpretations not yet effective for the third quarter of 2022 have not been applied in preparing the unaudited condensed consolidated interim financial statements as at and for the 39 weeks ended October 30, 2021. The amendments to standards and interpretations that are currently under review:

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

Further information on these modifications can be found in Note 3 of the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2022.