

# 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 28, 2023 and the audited annual consolidated financial statements for the fiscal year ended January 28, 2023 and the notes thereto which are available on the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca). This MD&A is dated December 14, 2023.

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 14, 2023.

Unless otherwise indicated, all comparisons of results for the 13 weeks ended October 28, 2023 ("third quarter of 2024") are against results for the 13 weeks ended October 29, 2022 ("third quarter of 2023") and all comparisons of results for the 39 weeks ended October 28, 2023 ("year to date fiscal 2024") are against results for the 39 weeks ended October 29, 2022 ("year to date fiscal 2023").

Additional information about Reitmans is available on the Company's website at [www.reitmanscanadalimited.com](http://www.reitmanscanadalimited.com) or on the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca).

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

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

- 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 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 disruption of the Company's supply chain;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- the changing consumer preferences toward more 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 & SUPPLEMENTARY FINANCIAL MEASURES

This MD&A makes reference to certain non-GAAP measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for the Company's analysis of its financial information reported under IFRS.

### NON-GAAP FINANCIAL MEASURES

This MD&A discusses the following non-GAAP financial measures: adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), adjusted results from operating activities ("Adjusted ROA") and working capital. This MD&A also indicates Adjusted EBITDA as a percentage of net revenues and is considered a non-GAAP financial ratio. Net revenues represent the sale of merchandise less discounts and returns ("net sales"), and includes shipping fees charged to customers on e-commerce orders. The intent of presenting Adjusted EBITDA and Adjusted ROA is to provide additional useful information to investors and analysts. Adjusted EBITDA is currently defined as net earnings before income tax expense/recovery, interest income, interest expense, loss on foreign currency translation differences reclassified to net earnings, pension curtailment gain, depreciation, amortization, net impairment of non-financial assets, adjusted for the impact of certain items, including a deduction of interest expense and depreciation relating to leases accounted for under IFRS 16, *Leases*, Federal subsidies and restructuring costs and recoveries. 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 this metric for this purpose. Management believes that Adjusted EBITDA as a percentage of net revenues indicates how much liquidity is generated for each dollar of net revenues. The exclusion of interest income and expenses, other than interest expense related to lease liabilities as explained hereafter, eliminates the impact on earnings derived from non-operational activities. The exclusion of depreciation, amortization and net impairment charges, other than depreciation related to right-of-use assets as explained hereafter, eliminates the non-cash impact, and the exclusion of restructuring recoveries/costs, Federal subsidies, loss on foreign currency translation differences reclassified to net earnings and pension curtailment gain presents the results of the on-going business. Under IFRS 16, *Leases*, the characteristics of some leases result in lease payments being recognized in net earnings in the period in which the performance or use occurs while other leases are recorded as right-of-use assets with a corresponding lease liability recognized, which results in depreciation of those assets and interest expense from those liabilities. Management is presenting its Adjusted EBITDA to reflect the payments of its store and equipment lease obligations on a consistent basis. As such, the initial add-back of depreciation of right-of-use assets and interest on lease obligations are removed from the calculation of Adjusted EBITDA, as this better reflects the operational cash flow impact of its leases.

Adjusted ROA is defined as results from operating activities excluding Federal subsidies, restructuring recoveries/costs and pension curtailment gain. Management believes that Adjusted ROA provides a more relevant indicator in assessing current operational performance. The exclusion of restructuring recoveries/costs, pension curtailment gain and Federal subsidies presents the on-going operational performance of the business.

Working capital is defined as current assets less current liabilities. Management believes that working capital provides information that is helpful to understand the financial condition of the Company. Due to the seasonality of the Company's business, it is more relevant to compare the working capital position at the same point in time.

## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The tables below provide a reconciliation of net earnings to Adjusted EBITDA, results from operating activities to Adjusted ROA and the composition of working capital:

	For the third quarter of		Year to date fiscal	
	2024	2023	2024	2023
<b>Net earnings</b>	\$ 5.3	\$ 14.6	\$ 14.8	\$ 50.2
Depreciation, amortization and net impairment losses on property and equipment, and intangible assets	3.3	3.5	10.3	11.7
Depreciation on right-of-use assets	8.5	7.9	24.4	21.0
Interest expense on lease liabilities	1.9	1.3	5.2	3.6
Interest income	(1.1)	(0.3)	(3.3)	(0.5)
Interest expense on revolving credit facility	-	-	-	0.4
Income tax expense (recovery)	2.0	0.1	5.6	(0.4)
Loss on foreign currency translation differences reclassified to net earnings	-	-	1.0	-
Pension curtailment gain	-	-	(0.9)	-
Rent impact from IFRS 16, <i>Leases</i> <sup>1</sup>	(10.4)	(9.2)	(29.6)	(24.6)
Federal subsidies	-	-	-	(1.2)
Restructuring costs, net	-	0.1	-	0.5
<b>Adjusted EBITDA</b>	<b>\$ 9.5</b>	<b>\$ 18.0</b>	<b>\$ 27.5</b>	<b>\$ 60.7</b>
<b>Adjusted EBITDA as % of Net Revenues</b>	<b>4.9%</b>	<b>8.8%</b>	<b>4.8%</b>	<b>10.3%</b>

<sup>1</sup> Rent Impact from IFRS 16, *Leases* is comprised as follows;

	For the third quarter of		Year to date fiscal	
	2024	2023	2024	2023
Depreciation on right-of-use assets	\$ 8.5	\$ 7.9	\$ 24.4	\$ 21.0
Interest expense on lease liabilities	1.9	1.3	5.2	3.6
<b>Rent impact from IFRS 16, <i>Leases</i></b>	<b>\$ 10.4</b>	<b>\$ 9.2</b>	<b>\$ 29.6</b>	<b>\$ 24.6</b>

	For the third quarter of		Year to date fiscal	
	2024	2023	2024	2023
<b>Results from operating activities</b>	<b>\$ 7.1</b>	<b>\$ 15.1</b>	<b>\$ 22.4</b>	<b>\$ 52.6</b>
Pension curtailment gain	-	-	(0.9)	-
Federal subsidies	-	-	-	(1.2)
Restructuring costs, net	-	0.1	-	0.5
<b>Adjusted ROA</b>	<b>\$ 7.1</b>	<b>\$ 15.2</b>	<b>\$ 21.5</b>	<b>\$ 51.9</b>

	As at October 28, 2023	As at October 29, 2022	As at January 28, 2023
Current assets	\$272.6	\$253.4	\$265.9
Current liabilities	102.5	102.7	122.9
<b>Working capital</b>	<b>\$170.1</b>	<b>\$150.7</b>	<b>\$143.0</b>

## SUPPLEMENTARY FINANCIAL MEASURES

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 net sales generated by stores that have been continuously open during both of the periods being compared and include e-commerce net sales. The comparable sales metric compares the same calendar days for each period. Although this KPI is expressed as a ratio, it is a supplementary 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 net sales and considers it useful in helping to determine what portion of new net 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.

## 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:

*Reitmans*

The Reitmans banner, founded in 1926, operates stores averaging 4,700 sq. ft. and is Canada's leading specialty fashion destination. With a strong online presence and store locations across the country, Reitmans customers account for over one-third of Canadian women. Reitmans ambition is to offer a feel-good and inclusive space featuring on-trend styles in the most extensive size range, from 0-22.

**PENN.**  
PENNINGTONS

PENN. is Canada's premiere destination for plus-size fashion, ranging from sizes 14 to 32. Through championing body diversity and size inclusivity, the brand believes that women deserve to experience the freedom that comes with feeling confident in their clothing. PENN. operates stores averaging 5,800 sq. ft. in power centres across Canada.

**RW&CO.**

RW&CO. operates stores averaging 4,500 sq. ft. in premium locations in major shopping malls as well as on their e-commerce site. Specializing in menswear and womenswear, the brand delivers versatile, well-crafted collections and exceptional brand experiences to an open and inclusive brand community.

## RETAIL BANNERS

	Number of stores at January 28, 2023	Q1 Openings	Q1 Closings	Q2 Openings	Q2 Closings	Q3 Closings	Number of stores at October 28, 2023	Number of stores at October 29, 2022
Reitmans	235	1	(1)	2	(2)	(4)	231	235
PENN.	91	1	(1)	1	(2)	-	90	91
RW&CO.	80	-	-	-	-	-	80	78
<b>Total stores</b>	<b>406</b>	<b>2</b>	<b>(2)</b>	<b>3</b>	<b>(4)</b>	<b>(4)</b>	<b>401</b>	<b>404</b>

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.

## OPERATING RESULTS FOR THE THIRD QUARTER OF 2024 COMPARED TO THE THIRD QUARTER OF 2023

	Third Quarter of 2024	Third Quarter of 2023	\$ Change	% Change
Net revenues <sup>1</sup>	\$ 193.4	\$ 206.2	\$ (12.8)	(6.2)%
Cost of goods sold	85.8	88.1	(2.3)	(2.6)%
Gross profit	107.6	118.1	(10.5)	(8.9)%
Gross profit %	55.6%	57.3%		
Selling, distribution and administrative expenses <sup>1</sup>	100.5	103.0	(2.5)	(2.4)%
Results from operating activities	7.1	15.1	(8.0)	(53.0)%
Net finance income (costs)	0.2	(0.4)	0.6	n/a
Earnings before income taxes	7.3	14.7	(7.4)	(50.3)%
Income tax expense	(2.0)	(0.1)	(1.9)	n/a
Net earnings	\$ 5.3	\$ 14.6	\$ (9.3)	(63.7)%
Adjusted EBITDA <sup>2</sup>	\$ 9.5	\$ 18.0	\$ (8.5)	(47.2)%
Adjusted ROA <sup>2</sup>	\$ 7.1	\$ 15.2	\$ (8.1)	(53.3)%
Earnings per share:				
Basic	\$ 0.11	\$ 0.30	\$ (0.19)	(63.3)%
Diluted	0.11	0.30	(0.19)	(63.3)%

<sup>1</sup> For the third quarter of 2023, shipping revenues of \$0.6 million were reclassified from selling, distribution and administrative expenses to net revenues. See Notes 3 and 18 of the unaudited condensed consolidated interim financial statements for the third quarter of 2024. In addition, selling, distribution and administrative expenses includes \$0.1 million of restructuring costs for the third quarter of 2023.

<sup>2</sup> This is a Non-GAAP Financial Measure. See section entitled “Non-GAAP Financial Measures and Supplementary Financial Measures” for reconciliations of these measures.

### Net Revenues

Net revenues for the third quarter of 2024 decreased by \$12.8 million, or 6.2%, to \$193.4 million. Comparable sales<sup>1</sup>, which include e-commerce net sales, decreased 7.7% during the third quarter of 2024. The decrease in net revenues and comparable sales was primarily due to lower store and e-commerce traffic, lower average transaction values and higher promotional activity. We believe that comparatively higher interest rates and inflation overall compared to the corresponding period last year negatively impacted consumer spending during the third quarter of 2024.

The breakdown of net revenues was as follows:

	Third Quarter of 2024		Third Quarter of 2023		\$ Change	% Change
Retail stores	\$ 143.8	74.4%	\$ 151.8	73.6%	\$ (8.0)	(5.3)%
E-commerce	49.6	25.6%	54.4	26.4%	(4.8)	(8.8)%
Net revenues	\$ 193.4	100.0%	\$ 206.2	100.0%	\$ (12.8)	(6.2)%

<sup>1</sup> This is a supplementary financial measure. See section entitled “Supplementary Financial Measures”.

### Gross Profit

Gross profit for the third quarter of 2024 decreased \$10.5 million to \$107.6 million as compared with \$118.1 million for the third quarter of 2023. Gross profit as a percentage of net revenues for the third quarter of 2024 decreased to 55.6% from 57.3% for the third quarter of 2023. The decrease in gross profit and as a percentage of net revenues is primarily attributable to higher markdown and promotional activity combined with an unfavorable foreign exchange impact of approximately \$3.2

million on U.S. dollar denominated purchases included in cost of goods sold, partially offset by lower supply chain costs in the third quarter of 2024 as global shipping industry disruptions were prevalent in the third quarter of 2023.

### ***Selling, Distribution and Administrative Expenses***

Total selling, distribution and administrative expenses of \$100.5 million for the third quarter of 2024 decreased by \$2.5 million or 2.4%, as compared to the third quarter of 2023, primarily attributable to the following:

- a \$4.9 million decrease in performance incentive plan expense, which plan expense is based upon the forecasted attainment of operating performance targets in the third quarter of 2024;
- a decrease in e-commerce shipping costs due primarily to a decrease in online orders fulfilled during the third quarter of 2024;

partially offset by,

- increased store operating costs due primarily to higher store personnel costs and higher advertising expenditures;
- higher head office and distribution centre personnel costs due to wage increases and to support targeted growth areas of the business;
- increased software expenses as a result of the Company's investment in cloud service providers and e-commerce initiatives;
- a \$0.2 million decrease in depreciation, amortization and net impairment losses on property and equipment and intangible assets.

### ***Net Finance Income (Costs)***

Net finance income was \$0.2 million for the third quarter of 2024 as compared to net finance costs of \$0.4 million for the third quarter of 2023. The increase of \$0.6 million in net finance income is primarily attributable to higher interest income of \$0.8 million earned on funds held with a Canadian bank and a higher foreign exchange gain of \$0.4 million on U.S. denominated net monetary assets, partially offset by higher interest expense of \$0.6 million related to lease liabilities as compared to the third quarter of 2023.

### ***Income Taxes***

Income tax expense for the third quarter of 2024 amounted to \$2.0 million for an effective tax rate of 27.4%. The effective tax rate for the third quarter of 2024 was primarily impacted by the difference in tax rate related to the operations of a foreign subsidiary and by non-deductible permanent differences.

The income tax expense of \$0.1 million for the third quarter of 2023 is mainly comprised of the estimated tax expense related to a foreign subsidiary. As at October 29, 2022, management's assessment, was that it was not probable that future taxable profits would be available. Consequently, as at October 29, 2022, the Company did not recognize deferred tax assets on all temporary differences and operating losses carried forward relating to its Canadian based operations.

### ***Net Earnings***

Net earnings for the third quarter of 2024 were \$5.3 million (\$0.11 basic and diluted earnings per share) as compared with net earnings of \$14.6 million (\$0.30 basic and diluted earnings per share) for the third quarter of 2023. The decrease in net earnings of \$9.3 million is primarily attributable the

decrease in gross profit and an increase in income tax expense, partially offset by a decrease in overall operating costs, as noted above.

***Adjusted EBITDA***

Adjusted EBITDA for the third quarter of 2024 was \$9.5 million as compared to \$18.0 million for the third quarter of 2023. The decrease of \$8.5 million is primarily attributable to a decrease in gross profit, partially offset by a decrease in overall operating costs, as noted above.

***Adjusted ROA***

Adjusted ROA for the third quarter of 2024 was \$7.1 million as compared with \$15.2 million for the third quarter of 2023. The decrease of \$8.1 million is primarily attributable to a decrease in gross profit, partially offset by a decrease in overall operating costs, as noted above.

## OPERATING RESULTS FOR THE YEAR TO DATE FISCAL 2024 COMPARED TO THE YEAR TO DATE FISCAL 2023

	Year to date Fiscal 2024	Year to date Fiscal 2023	\$ Change	% Change
Net revenues <sup>1</sup>	\$ 573.7	\$ 590.4	\$ (16.7)	(2.8)%
Cost of goods sold	257.6	248.6	9.0	3.6%
Gross profit	316.1	341.8	(25.7)	(7.5)%
Gross profit %	55.1%	57.9%		
Selling, distribution and administrative expenses <sup>1</sup>	293.7	289.2	4.5	1.6%
Results from operating activities	22.4	52.6	(30.2)	(57.4)%
Net finance costs	(2.0)	(2.8)	0.8	(28.6)%
Earnings before income taxes	20.4	49.8	(29.4)	(59.0)%
Income tax (expense) recovery	(5.6)	0.4	(6.0)	n/a
Net earnings	\$ 14.8	\$ 50.2	\$ (35.4)	(70.5)%
Adjusted EBITDA <sup>2</sup>	\$ 27.5	\$ 60.7	\$ (33.2)	(54.7)%
Adjusted ROA <sup>2</sup>	\$ 21.5	\$ 51.9	\$ (30.4)	(58.6)%
Earnings per share:				
Basic	\$ 0.30	\$ 1.03	\$ (0.73)	(70.9)%
Diluted	0.30	1.03	(0.73)	(70.9)%

<sup>1</sup> For the year to date fiscal 2023, shipping revenues of \$1.7 million were reclassified from selling, distribution and administrative expenses to net revenues. See Notes 3 and 18 of the unaudited condensed consolidated interim financial statements for the year to date fiscal 2024. In addition, selling, distribution and administrative expenses includes \$0.9 million of pension curtailment gain for the year to date fiscal 2024 and \$0.5 million of restructuring costs for the year to date fiscal 2023.

<sup>2</sup> This is a Non-GAAP Financial Measure. See section entitled "Non-GAAP Financial Measures and Supplementary Financial Measures" for reconciliations of these measures.

### Net Revenues

Net revenues for the year to date fiscal 2024 decreased by \$16.7 million, or 2.8%, to \$573.7 million. Comparable sales<sup>1</sup>, which include e-commerce net sales, decreased 3.7% during the year to date fiscal 2024. The decrease in net revenues and comparable sales was primarily due to lower average transaction values and higher promotional activity. We believe that comparatively higher interest rates and inflation overall compared to the corresponding period last year negatively impacted consumer spending during the year to date fiscal 2024.

The breakdown of net revenues was as follows:

	Year to date Fiscal 2024		Year to date Fiscal 2023		\$ Change	% Change
Retail stores	\$ 426.5	74.3%	\$ 423.5	71.7%	\$ 3.0	0.7%
E-commerce	147.2	25.7%	166.9	28.3%	(19.7)	(11.8)%
Net revenues	\$ 573.7	100.0%	\$ 590.4	100.0%	\$ (16.7)	(2.8)%

<sup>1</sup> This is a supplementary financial measure. See section entitled "Supplementary Financial Measures".

### Gross Profit

Gross profit for the year to date fiscal 2024 decreased \$25.7 million to \$316.1 million as compared with \$341.8 million for the year to date fiscal 2023. Gross profit as a percentage of net revenues for the year to date fiscal 2024 decreased to 55.1% from 57.9% for the year to date fiscal 2023. The decrease both in gross profit and as a percentage of net revenues is primarily attributable to higher markdowns and promotional activity in the year to date fiscal 2024 combined with an unfavourable

foreign exchange impact of approximately \$11.4 million on U.S. dollar denominated purchases included in cost of goods sold, partially offset by lower supply chain costs in the year to date fiscal 2024 as global shipping industry disruptions were prevalent in the year to date fiscal 2023.

### ***Selling, Distribution and Administrative Expenses***

Total selling, distribution and administrative expenses of \$293.7 million for the year to date fiscal 2024 increased by \$4.5 million or 1.6%, as compared to the year to date fiscal 2023 primarily attributable to the following:

- increased store operating costs due primarily to higher store personnel costs and higher advertising expenditures;
- previous preferential rent arrangements were renewed at closer to market lease rates. The Company continues to benefit from excellent relationships with its landlords;
- a \$1.2 million decrease in financial support from Federal subsidy programs that ended in the earlier portion of the year to date fiscal 2023;
- higher head office and distribution centre personnel costs due to wage increases and to support growth areas of the business;
- increased software expenses as a result of the Company's investment in cloud service providers and e-commerce initiatives;

partially offset by,

- a \$11.3 million decrease in performance incentive plan expense, which plan expense is based upon the forecasted attainment of operating performance targets in the year to date fiscal 2024;
- a decrease in e-commerce shipping costs due primarily to a decrease in online orders fulfilled during the year to date fiscal 2024;
- a \$0.9 million non-recurring curtailment gain recognized in the year to date fiscal 2024, as a result of the Company's decision to wind-up its defined benefit pension plan effective as at June 30, 2024;
- a \$1.4 million decrease in depreciation, amortization and net impairment losses due primarily to the Company's controlled spending in property and equipment and intangible assets.

### ***Net Finance Costs***

Net finance costs were \$2.0 million for the year to date fiscal 2024 as compared to \$2.8 million for the year to date fiscal 2023. The decrease of \$0.8 million is primarily attributable to \$2.8 million of higher interest income earned on funds held with a Canadian bank and no interest incurred on the revolving credit facility, partially offset by a \$1.0 million loss on foreign currency translation differences from the wind-up of a foreign operation and higher interest expense of \$1.6 million related to lease liabilities as compared to the year to date fiscal 2023.

### ***Income Taxes***

Income tax expense for the year to date fiscal 2024 amounted to \$5.6 million for an effective tax rate of 27.5%. The effective tax rate for the year to date fiscal 2024 was primarily impacted by a non-deductible foreign currency translation loss reclassified to net earnings due to the wind-up of a foreign operation of \$1.0 million, non-deductible permanent differences and the difference in tax rate related to the operations of a foreign subsidiary.

The income tax recovery of \$0.4 million for the year to date fiscal 2023 is mainly comprised of adjustments in respect of prior periods, net of the estimated tax expense related to the operations of a foreign subsidiary. As at October 29, 2022, management's assessment, was that it was not probable that future taxable profits would be available. Consequently, as at October 29, 2022, the Company did not recognize deferred tax assets on all temporary differences and operating losses carried forward relating to its Canadian based operations.

### **Net Earnings**

Net earnings for the year to date fiscal 2024 was \$14.8 million (\$0.30 basic and diluted earnings per share) as compared with \$50.2 million (\$1.03 basic and diluted earnings per share) for the year to date fiscal 2023. The decrease in net earnings of \$35.4 million is primarily attributable to the decrease in gross profit, the increase in operating costs and the increase in income tax expense, as noted above.

### **Adjusted EBITDA**

Adjusted EBITDA for the year to date fiscal 2024 was \$27.5 million as compared to \$60.7 million for the year to date fiscal 2023. The decrease of \$33.2 million is primarily attributable to the decrease in gross profit and the increase in operating costs, as noted above.

### **Adjusted ROA**

Adjusted ROA for the year to date fiscal 2024 was \$21.5 million as compared to \$51.9 million for the year to date fiscal 2023. The decrease of \$30.4 million is primarily attributable to the decrease in gross profit and the increase in operating costs, as noted above.

## **FOREIGN EXCHANGE CONTRACTS**

The Company imports a majority of its merchandise purchases from foreign vendors, with lead times in some cases extending twelve months. In June 2023, the Company began entering into foreign exchange forward contracts to hedge a portion of its exposure to fluctuations in the value of the U.S. dollar, generally up to twelve months in advance. The Company's policy is to satisfy up to 80% of projected U.S. dollar denominated merchandise purchases in any given fiscal year by way of foreign exchange forward contracts, with any additional requirements being met through spot U.S. dollar purchases.

Details of the foreign exchange contracts outstanding as at October 28, 2023, all of which are designated as cash flow hedges, are as follows:

	<b>Average Strike Price</b>	<b>Notional Amount in U.S. Dollars</b>	<b>Derivative Financial Asset</b>	<b>Derivative Financial Liability</b>	<b>Net</b>
Foreign exchange forward contracts	\$ 1.316	\$ 57.0	\$ 3.8	\$ -	\$ 3.8

As at October 29, 2022 and January 28, 2023, the Company's hedging program were temporarily paused and there were no foreign exchange contracts outstanding.

## 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 “2024” are to the Company’s fiscal year ending February 3, 2024, “2023” are to the Company’s fiscal year ended January 28, 2023 and “2022” are to the Company’s fiscal year ended January 29, 2022.

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2024	2023	2024	2023	2024	2023	2023	2022
Net revenues <sup>5</sup>	\$ 193.4	\$ 206.2	\$ 214.5	\$ 229.9	\$ 165.7	\$ 154.3	\$ 212.9	\$ 190.9
Net earnings (loss)	5.3	14.6 <sup>1</sup>	13.4 <sup>2</sup>	37.3 <sup>2</sup>	(3.8)	(1.7) <sup>3</sup>	27.5 <sup>4</sup>	97.2 <sup>4</sup>
Earnings (loss) per share								
Basic	\$ 0.11	\$ 0.30 <sup>1</sup>	\$ 0.27 <sup>2</sup>	\$ 0.76 <sup>2</sup>	\$ (0.08)	\$ (0.04) <sup>3</sup>	\$ 0.56 <sup>4</sup>	\$ 1.99 <sup>4</sup>
Diluted	0.11	0.30 <sup>1</sup>	0.27 <sup>2</sup>	0.76 <sup>2</sup>	(0.08)	(0.04) <sup>3</sup>	0.56 <sup>4</sup>	1.99 <sup>4</sup>

<sup>1</sup> During the third quarter of 2023, net earnings includes restructuring costs of \$0.1 million.

<sup>2</sup> During the second quarter of 2024, net earnings includes a pension curtailment gain of \$0.9 million. During the second quarter of 2023, net earnings includes restructuring costs recovery of \$0.2 million.

<sup>3</sup> During the first quarter of 2023, net loss includes restructuring costs of \$0.6 million, partially offset by the impact of Federal subsidies totalling \$1.2 million.

<sup>4</sup> During the fourth quarter of 2023, net earnings include \$1.9 million of restructuring costs recovery. During the fourth quarter of 2022, net earnings include the impact of Federal subsidies totalling \$4.7 million, gain on settlement of liabilities subject to compromise of \$88.6 million, partially offset by restructuring costs of \$0.5 million.

<sup>5</sup> Net revenues includes shipping revenues which have been reclassified from selling, distribution and administrative expenses. See Notes 3 and 18 of the unaudited condensed consolidated interim financial statements for the third quarter of 2024. Due to this reclassification, net revenues for the third quarter of 2023 have been increased by \$0.6 million, net revenues for the second quarter of 2024 have been increased by \$1.3 million (\$0.7 million for the second quarter of 2023), net revenues for the first quarter of 2024 have been increased by \$0.7 million (\$0.4 million for the first quarter of 2023) and net revenues for the fourth quarter of fiscal 2023 have been increased \$1.0 million (\$0.7 million for the fourth quarter of 2022).

## BALANCE SHEET

Selected line items from the Company's balance sheets as at October 28, 2023 and January 28, 2023 are presented below:

	October 28, 2023	January 28, 2023	\$ Change	% Change
Cash	\$ 101.3	\$ 103.0	\$ (1.7)	(1.7)%
Trade and other receivables	3.7	3.2	0.5	15.6%
Derivative financial asset	3.8	-	3.8	n/a%
Inventories	147.9	142.3	5.6	3.9%
Prepaid expenses and other assets	15.8	14.5	1.3	9.0%
Property and equipment & intangible assets	65.4	66.5	(1.1)	(1.7)%
Right-of-use assets	108.2	79.9	28.3	35.4%
Pension asset	1.9	-	1.9	n/a%
Deferred income taxes	25.9	32.3	(6.4)	(19.8)%
Trade and other payables	63.2	81.1	(17.9)	(22.1)%
Deferred revenue	11.6	14.1	(2.5)	(17.7)%
Income taxes payable	0.8	1.0	(0.2)	(20.0)%
Lease liabilities (current and non-current)	117.0	87.5	29.5	33.7%

Changes at October 28, 2023 as compared to January 28, 2023 were primarily due to the following:

- cash decreased \$1.7 million primarily due to the payment of the fiscal 2023 performance incentive plan award and the investments made in property and equipment, partially offset by cash generated from operations and the receipt of an amount of \$2.8 million previously held in trust by a Canadian financial institution;
- trade and other receivables increased primarily due to higher credit card receivables as at October 28, 2023 as compared to as at January 28, 2023;
- the derivative financial asset position is attributable to the mark-to-market adjustment on foreign exchange forward contracts outstanding as at the end of third quarter of 2024 that were entered into after January 28, 2023;
- inventories are higher primarily due to the normal build-up for the holiday selling season and a higher average merchandise purchase cost;
- the increase of \$1.3 million in prepaid expenses and other assets is primarily due to the timing of payments related to service and insurance contracts, partially offset by a reduction of supplier deposits;
- property and equipment & intangible assets decreased by \$1.1 million. During year to date fiscal 2024, \$8.9 million had been spent primarily on new stores, store renovations and corporate hardware and software investments. Depreciation and amortization of \$9.8 million and a net impairment of \$0.5 million on property and equipment and intangible assets were recognized in fiscal 2024 (\$11.1 million of depreciation and amortization and a net impairment of \$0.6 million on property and equipment and intangible assets were recognized in year to date fiscal 2023);
- right-of-use assets represent the right-to-use the retail stores and certain equipment over their lease terms. Right-of-use assets increased by a net \$28.3 million primarily due to lease renewals signed during the year to date fiscal 2024. Depreciation and amortization of \$24.4 million was recognized in year to date fiscal 2024 (\$21.0 million of depreciation and amortization was recognized in year to date fiscal 2023). No impairment charges were recognized in the year to date fiscal 2024 and 2023;
- pension asset increased by \$1.9 million primarily due to an actuarial gain of \$1.0 million recognized in other comprehensive income and a pension curtailment gain of \$0.9 million in the year to date fiscal 2024. On May 19, 2023, the Company's Board of Directors had approved the dissolution of the defined benefit pension plan ("Plan"). The effective date of the windup for the Plan is June 30, 2024;

- deferred tax assets decreased by \$6.4 million primarily due to the net reversal of deductible temporary differences. Deferred tax assets arise primarily due to temporary differences and operating losses carried forward relating to the Canadian operations as a result of management's assessment that the Company has the ability to generate future profitable operations and that it is probable that future taxable profits will be available to utilize the tax benefits;
- trade and other payables decreased by \$17.9 million primarily due to the timing of payments related to trade and personnel-related liabilities (including performance incentive plan awards) and, partially offset by the timing of payments related to non-trade liabilities (including sales tax liabilities);
- deferred revenue decreased by \$2.5 million largely due to gift card redemptions, partially offset by an increase in awards granted under customer loyalty programs;
- income taxes payable consists of estimated net tax liabilities of a foreign subsidiary. The decrease of \$0.2 million in income taxes payable is primarily due to payments made by a foreign subsidiary, partially offset by estimated income tax for the year to date fiscal 2024 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 year to date fiscal 2024, lease liabilities increased by lease additions of \$53.2 million and interest expense of \$5.2 million, offset by payments of \$28.5 million and lease modifications of \$0.4 million.

## 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 28, 2023 (which is available on the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca)).

## LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company primarily uses funds for working capital requirements and capital expenditures. As at October 28, 2023, compared to October 29, 2022, the Company increased its working capital<sup>1</sup> position by \$19.4 million (an increase of \$27.1 million when compared to January 28, 2023) with current assets of \$272.6 million (October 29, 2022 – \$253.4 million; January 28, 2023 - \$265.9 million) and current liabilities of \$102.5 million (October 29, 2022 - \$102.7 million; January 28, 2023 - \$122.9 million) and no long-term debt (other than lease liabilities). As at October 28, 2023, included in the Company's current assets is cash of \$101.3 million (October 29, 2022 - \$64.3 million; January 28, 2023 - \$103.0 million). Cash is held in interest bearing accounts mainly with a major Canadian financial institution.

The Company has a senior secured asset-based revolving credit facility with a Canadian financial institution of up to \$115.0 million (or its U.S. dollar equivalent), which matures on January 12, 2025. If and when necessary, this committed facility is used to finance the ongoing operations of the Company. No amount was drawn under the secured asset-based credit facility as at October 28, 2023, October 29, 2022 and January 28, 2023.

In the year to date fiscal 2024, the Company invested \$8.9 million in capital expenditures. The Company expects to invest approximately \$23.0 million in capital expenditures in fiscal 2024. The Company's capital allocation strategy focuses on three main investment areas:

1. Investment in store renovations to ensure the existing fleet of stores remains current and relevant and in new stores as suitable locations are identified;

2. Technology, continuing to upgrade systems including migrating legacy systems to cloud service providers and omnichannel network, including in-store and ecommerce digital capabilities;
3. Distribution improvements, including optimizing and further automating distribution capabilities and upgrading existing distribution.

<sup>1</sup> This is a Non-GAAP Financial Measure. See section entitled "Non-GAAP Financial Measures & Supplementary Financial Measures" for a reconciliation of this measure.

## FINANCIAL COMMITMENTS

There have been no material changes in the Company's financial commitments that are outside of the ordinary course of the Company's business from those described in the Company's audited annual consolidated financial statements for the year ended January 28, 2023.

## OUTSTANDING SHARE DATA

At December 14, 2023, 13,440,000 Common shares and 35,856,322 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. As at December 14, 2023, the Company has a total of 2,526,869 share options outstanding at an average exercise price of \$2.88. 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 considers a variety of strategies designed to manage the cost of its continuing U.S. dollar long-term commitments, including spot rate purchases and foreign currency forward contracts with maturities generally not exceeding twelve months and are normally designated as cash flow hedges.

Details of the foreign exchange contracts outstanding as at October 28, 2023, October 29, 2022 and January 28, 2023 are included in the "Foreign Exchange Contracts" section of this MD&A.

## 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 28, 2023.

## FINANCIAL INSTRUMENTS

The Company uses its cash resources and its credit facilities 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 trade and other receivables. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian financial institutions.

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

## CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

### Key Sources of Estimation Uncertainty

There have been no significant changes in the key sources of estimation uncertainty and judgements made in relation to the accounting policies applied as disclosed in the Company's annual MD&A for the year ended January 28, 2023 (which is available on the SEDAR+ website at [www.sedarplus.ca](http://www.sedarplus.ca)).

## ADOPTION OF NEW ACCOUNTING POLICIES

The new accounting policies set out below have been adopted in the unaudited condensed consolidated interim financial statements as at and for the third quarter of 2024:

- Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

Further information on these new accounting policies can be found in Note 3 of the unaudited condensed consolidated interim financial statements for the third quarter of 2024.