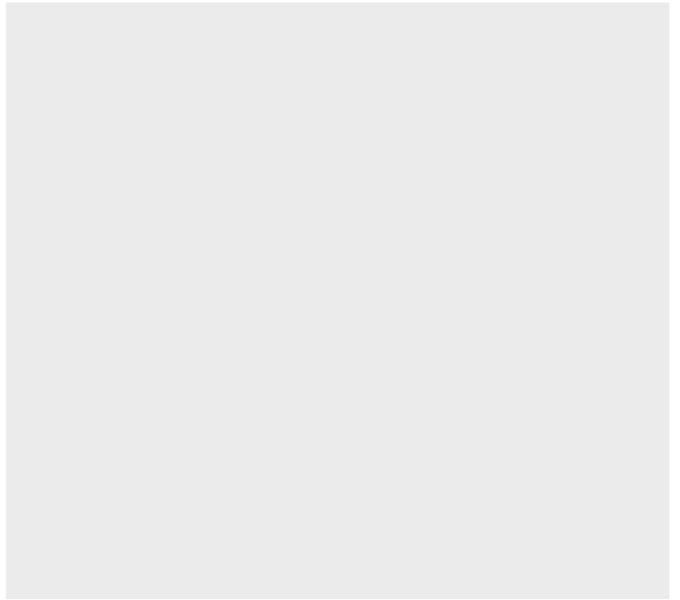


INTERIM REPORT  
FOR THE SIX  
MONTHS ENDED  
**AUGUST 1, 2015**



Reitmans  
(CANADA) LIMITED



We are customer driven, value oriented and committed to excellence. By promoting innovation, growth, development and teamwork, we strive to serve our customers the best quality/value proposition in the marketplace.

**REITMANS IS**  
CANADA'S LEADING  
SPECIALTY RETAILER



Sales for the three months ended August 1, 2015 were \$253.0 million as compared with \$258.3 million for the three months ended August 2, 2014, a decrease of 2.1%, with 51 fewer stores in operation. Same store sales<sup>1</sup> increased by 1.7% with stores decreasing 0.6% and e-commerce increasing 70.1%. Gross profit for the three months ended August 1, 2015 decreased \$13.3 million or 8.7% to \$139.2 million as compared with \$152.5 million for the three months ended August 2, 2014. Gross margin for the three months ended August 1, 2015 decreased to 55.0% from 59.0% for the three months ended August 2, 2014, with the fluctuation of the U.S. dollar negatively impacting gross margin by approximately \$8.2 million. Net loss for the three months ended August 1, 2015 was \$0.2 million (\$0.00 basic and diluted loss per share) as compared with net earnings of \$9.6 million (\$0.15 basic and diluted earnings per share) for the three months ended August 2, 2014. The net loss was primarily attributable to reduced margins and a \$5.2 million loss (on a pre-tax basis) due to a change in the fair value of marketable securities mitigated by reduced operating costs both at the store level and head office. Adjusted EBITDA<sup>1</sup> for the three months ended August 1, 2015 was \$17.4 million as compared with \$23.6 million for the three months ended August 2, 2014, a decrease of \$6.2 million.

Sales for the six months ended August 1, 2015 were \$454.7 million as compared with \$464.8 million for the six months ended August 2, 2014, a decrease of 2.2%, impacted by a net reduction of 51 stores. Same store sales<sup>1</sup> increased 2.1% with stores decreasing 0.3% and e-commerce increasing 81.3%. Gross profit for the six months ended August 1, 2015 decreased \$13.0 million or 4.8% to \$259.3 million as compared with \$272.3 million for the six months ended August 2, 2014. The Company's gross margin for the six months ended August 1, 2015 decreased to 57.0% from 58.6% for the six months ended August 2, 2014, with the fluctuation of the U.S. dollar negatively impacting gross margin by approximately \$10.3 million. Net loss for the six months ended August 1, 2015 was \$7.9 million (\$0.12 basic and diluted loss per share) as compared with \$3.9 million (\$0.06 basic and diluted loss per share) for the six months ended August 2, 2014. The increased loss was primarily attributable to reduced gross margins and a \$6.4 million loss (on a pre-tax basis) due to a change in the fair value of marketable securities mitigated by reduced operating costs both at the store level and head office. Adjusted EBITDA<sup>1</sup> for the six months ended August 1, 2015 was \$19.7 million as compared with \$19.5 million for the six months ended August 2, 2014, an increase of \$0.2 million.

During the quarter, the Company opened 6 new stores and closed 22. Accordingly, at August 1, 2015, there were 794 stores in operation, consisting of 333 Reitmans, 135 Penningtons, 107 Addition Elle, 80 RW & CO., 69 Thyme Maternity and 70 Smart Set. The Company also operates 21 Thyme Maternity shop-in-shop boutiques in select Babies"R"Us locations in Canada.

Sales for the month of August (the four weeks ended August 29, 2015) increased 0.9% with same store sales<sup>1</sup> increasing 6.8%, stores increasing 4.5% and e-commerce increasing 81.8%.

At the Board of Directors meeting held on September 10, 2015, a quarterly cash dividend (constituting eligible dividends) of \$0.05 per share on all outstanding Class A non-voting and Common shares of the Company was declared, payable October 29, 2015 to shareholders of record on October 15, 2015.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman  
Chairman and Chief Executive Officer

Montreal, September 10, 2015

## TO OUR SHAREHOLDERS

<sup>1</sup> Please refer to the note on non-GAAP financial measures included in the Management's Discussion & Analysis.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2 OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOR THE SIX MONTHS ENDED  
AUGUST 1, 2015

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("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 fiscal period ended August 1, 2015 ("second quarter of fiscal 2016") and the audited annual consolidated financial statements for the fiscal year ended January 31, 2015 and the notes thereto which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com). This MD&A is dated September 10, 2015.

All financial information contained in this MD&A and Reitmans' unaudited condensed consolidated interim financial statements have 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 in this MD&A are in millions of Canadian dollars, except per share 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 September 10, 2015.

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.sedar.com](http://www.sedar.com).

### 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. Such risks include but are not limited to: the impact of general economic conditions, general conditions in the retail industry, seasonality, weather and other risks included in public filings of the Company, including those listed in the "Operating Risk Management" and "Financial Risk Management" sections of the Company's MD&A for the year ended January 31, 2015. Consequently, actual future results may differ materially from the anticipated results expressed in forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. 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. Specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the Company's anticipated future results and events, 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. 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

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 before income tax expense, other income, dividend income, interest income, net change in fair value of marketable securities, realized gains or losses on disposal of marketable securities, interest expense, depreciation, amortization and net impairment losses. The following table reconciles the most comparable GAAP measure, net earnings or loss, to adjusted EBITDA. 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 dividend, interest income, net change in fair value of marketable securities and realized gains or losses on disposal of marketable securities eliminates the impact on earnings derived from non-operational activities. The exclusion of depreciation, amortization and impairment charges eliminates the non-cash impact. The intent of adjusted EBITDA is to provide additional useful information to investors and analysts and the measure does not have any standardized meaning under IFRS. Adjusted EBITDA should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS. 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. The Company uses a key performance indicator ("KPI"), same store sales, to assess store performance (including each banner's e-commerce store) and sales growth. Same store 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 same store 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 same store sales in evaluating the performance of stores 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. Same store sales is a measure widely used amongst retailers and is considered useful information for both investors and analysts. Same store sales should therefore not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS.

The following table reconciles net (loss) earnings to adjusted EBITDA for the three and six months ended August 1, 2015 and August 2, 2014:

(in millions of Canadian dollars)  
(unaudited)

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	AUGUST 1, 2015	AUGUST 2, 2014	AUGUST 1, 2015	AUGUST 2, 2014
<b>Net (loss) earnings</b>	\$ (0.2)	\$ 9.6	\$ (7.9)	\$ (3.9)
Depreciation, amortization and net impairment losses	12.2	12.4	24.1	25.8
Dividend income	(0.6)	(0.6)	(1.3)	(1.3)
Interest income	(0.1)	(0.2)	(0.3)	(0.3)
Realized loss on disposal of marketable securities	–	–	–	0.1
Net change in fair value of marketable securities	5.2	–	6.4	–
Interest expense	0.1	0.1	0.2	0.2
Income tax expense (recovery)	0.8	2.3	(1.5)	(1.1)
<b>Adjusted EBITDA</b>	\$ 17.4	\$ 23.6	\$ 19.7	\$ 19.5
<b>Adjusted EBITDA as % of sales</b>	6.9%	9.1%	4.3%	4.2%

## CORPORATE OVERVIEW

The Company has a single reportable segment which derives its revenue from the sale of ladies' specialty apparel to consumers through its six retail banners. The Company's stores are primarily located in malls and retail power centres across Canada. The Company currently operates under the following banners:

The logo for Reitmans, featuring the brand name in a stylized, cursive script.

The Reitmans banner, operating 333 stores averaging 4,600 sq. ft., is Canada's largest women's apparel specialty chain and leading fashion brand. Reitmans has developed strong customer loyalty through superior service, insightful marketing and quality merchandise.

The logo for Penningtons, featuring the brand name in a bold, sans-serif font.

Penningtons is a leader in the Canadian plus-size market, offering trend-right styles and affordable quality for plus-size fashion sizes 14–32. Penningtons operates 135 stores in power centres across Canada averaging 6,000 sq. ft.

The logo for Addition Elle, featuring the brand name in a clean, sans-serif font.

Addition Elle is a fashion destination for plus-size women with a focus on fashion, quality and fit delivering the latest "must-have" trends to updated fashion essentials in an inspiring shopping environment. Addition Elle operates 107 stores averaging 6,000 sq. ft. in major malls and power centres nationwide.

The logo for RW & CO., featuring the brand name in a bold, sans-serif font.

RW & CO. operates 80 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.

The logo for Thyme Maternity, featuring the brand name in a cursive script with a small floral icon to the right.

Thyme Maternity is a leading fashion brand for moms-to-be, offering current styles for every aspect of life, from casual to work, plus a complete line of nursing fashions and accessories. Thyme operates 69 stores averaging 2,300 sq. ft. in major malls and power centres across Canada. In addition, the Company operates 21 Thyme Maternity shop-in-shop boutiques in select Babies"R"Us locations in Canada.

The logo for SMARTSET, featuring the brand name in a bold, sans-serif font.

On November 25, 2014 the Company announced its plan to close all Smart Set stores. Management determined that its optimum strategy to improve operating results was to refocus its sales and merchandising efforts either through conversion of Smart Set stores to other Company banners or through store closures. The majority of store conversions will occur by October 31, 2015 while the remaining stores are anticipated to close by the year ending January 28, 2017.

## E-COMMERCE

The Company also offers e-commerce website shopping for all of its banners, excluding Smart Set. These online channels offer customers convenience, selection and ease of purchase, while enhancing customer loyalty and continuing to build the brands.

RETAIL BANNERS

	NUMBER OF STORES AT JANUARY 31, 2015	Q1 OPENINGS	Q1 CLOSINGS	Q2 OPENINGS	Q2 CLOSINGS	NUMBER OF STORES AT AUGUST 1, 2015	NUMBER OF STORES AT AUGUST 2, 2014
Reitmans	341	–	(4)	–	(4)	333	343
Penningtons	139	1	(2)	1	(4)	135	143
Addition Elle	105	2	–	1	(1)	107	102
RW & CO.	76	3	(1)	3	(1)	80	76
Thyme Maternity <sup>1</sup>	68	1	(1)	1	–	69	68
Smart Set	94	–	(12)	–	(12)	70	113
<b>Total</b>	<b>823</b>	<b>7</b>	<b>(20)</b>	<b>6</b>	<b>(22)</b>	<b>794</b>	<b>845</b>
Thyme Maternity Babies"R"Us shop-in-shop	21	–	–	–	–	21	21

<sup>1</sup> Excludes boutiques in Babies"R"Us shop-in-shop locations.

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.

**STRATEGIC INITIATIVES**

The Company has undertaken a number of strategic initiatives to enhance its brands, improve productivity and profitability at all levels through system advances and foster a culture of process improvements.

Ongoing and new Company initiatives include:

INITIATIVES	STATUS
<p>The Company has announced its intention to launch Hyba, a new banner targeting healthy minded women over the age of 25. Hyba will offer activewear that covers performance to leisure.</p>	<p>Initially, Hyba will open in 17 former Smart Set store locations in October 2015. Selected Hyba products are also available in all Reitmans locations.</p>
<p>An international growth strategy has been developed within the Company aimed at growing existing successful brands outside Canada.</p>	<p>The Company has assembled a team of highly skilled, experienced members devoted to expanding internationally. Some recent developments include:</p> <ul style="list-style-type: none"> <li>• In March 2015, the Company launched a Penningtons product offering through Amazon.com in the U.S.;</li> <li>• The launch of the Addition Elle "Ashley Graham" collection online at Nordstrom in the U.S.;</li> <li>• Partnership with major U.S. department stores for wholesale of selected plus-size offerings.</li> </ul>
<p>A significant investment in the Company's distribution and logistics system has been undertaken in order to satisfy changes in consumer demand related to the growth of e-commerce and to provide for improved in-store fulfillment.</p>	<p>A redesign of the Company's distribution centre facility to accommodate the significant e-commerce growth experienced has commenced. Capital has been committed for improvements to the handling systems to satisfy the changing store and online demands.</p>
<p>The Company is committed to continued investment in e-commerce, including improvements in customer relationship management and technology.</p>	<p>The Company continues to invest in e-commerce, including the deployment of mobile technology. An initiative is underway to optimize the use of the Company's customer relationship database through technological improvements such as advanced email technology enabling targeted marketing. The Company is pleased with the continued growth in e-commerce sales.</p>
<p>Continuation of a companywide supply chain optimization and retail enterprise initiative, internally branded as "SCORE", focused on deploying best-in-class retail applications supported by a new and improved technology platform. SCORE will enable new processes that will permit flexibility and adaptability across the merchandising and supply chain operations.</p>	<p>The Company has refocused its efforts on the SCORE project to ensure major milestones for completion are achieved in the ensuing year. The SCORE project is on track for completion in fiscal 2017.</p>
<p>A comprehensive review of the Company's global sourcing strategy and execution continues with a goal of reducing lead time for bringing products to market.</p>	<p>This initiative is progressing well with significant milestone achievements. A corporate global sourcing unit was developed with a goal of improving current sourcing practices, reducing costs and evaluating other sourcing opportunities. Vendor consolidation has been achieved and further improvements in the supply chain are ongoing.</p>

**OPERATING RESULTS FOR THE THREE MONTHS ENDED AUGUST 1, 2015 ("SECOND QUARTER OF FISCAL 2016")  
AND COMPARISON TO OPERATING RESULTS FOR THE THREE MONTHS ENDED AUGUST 2, 2014  
("SECOND QUARTER OF FISCAL 2015")**

Sales for the second quarter of fiscal 2016 were \$253.0 million as compared with \$258.3 million for the second quarter of fiscal 2015, a decrease of 2.1%. Same store sales increased 1.7% with stores decreasing 0.6% and e-commerce increasing 70.1%. The following factors impacted sales in the second quarter of fiscal 2016:

- a net reduction of 51 stores, primarily attributable to the closure of Smart Set stores;
- stores were impacted by e-commerce alternatives and a highly competitive environment;
- unseasonable weather;
- e-commerce sales continued to show strong growth, although representing a small portion of total Company sales.

Gross profit for the second quarter of fiscal 2016 decreased \$13.3 million or 8.7% to \$139.2 million as compared with \$152.5 million for the second quarter of fiscal 2015. Gross margin for the second quarter of fiscal 2016 decreased to 55.0% from 59.0% for the second quarter of fiscal 2015. The reduction in the gross profit is largely attributable to the negative effect of foreign exchange (average rate for the U.S. dollar ranging between \$1.20 and \$1.31 Canadian during the second quarter of fiscal 2016 as compared to \$1.06 and \$1.10 Canadian in the second quarter of fiscal 2015). For the second quarter of fiscal 2016 as compared to the second quarter of fiscal 2015, the fluctuation of the U.S. dollar negatively impacted gross margin by approximately \$8.2 million.

Selling and distribution expenses for the second quarter of fiscal 2016 decreased 1.7% or \$2.1 million to \$124.8 million as compared with \$126.9 million for the second quarter of fiscal 2015. Factors contributing to this change included:

- a decrease in store operating costs due to a net reduction of 51 stores;
- a reduction in the employee performance incentive plan expense that is based on the attainment of operating performance targets;
- increased net impairment losses and write-offs of property, equipment and intangibles relating to underperforming stores and store closures (\$1.7 million for the second quarter of fiscal 2016 and \$0.9 million for the second quarter of fiscal 2015).

Administrative expenses for the second quarter of fiscal 2016 decreased 20.4% or \$3.0 million to \$11.7 million as compared with \$14.7 million for the second quarter of fiscal 2015 primarily due to:

- a reduction in the employee performance incentive plan expense that is based on the attainment of operating performance targets;
- a reduction in severance expense;
- lower depreciation and amortization for the second quarter of fiscal 2016 of \$0.4 million, compared to \$0.6 million for the second quarter of fiscal 2015.

Net finance costs were \$2.2 million for the second quarter of fiscal 2016 as compared to net finance income of \$1.0 million for the second quarter of fiscal 2015. This change is largely attributable to the following:

- a \$5.2 million loss due to a change in the fair value of marketable securities for the second quarter of fiscal 2016 compared to nil for the second quarter of fiscal 2015. The Company adopted IFRS 9 (2014) *Financial Instruments* ("IFRS 9 (2014)") in the first quarter of fiscal 2016 and as a result, changes in fair value of marketable securities are now recorded in earnings as opposed to other comprehensive income in the comparative period. The full impact from the implementation of IFRS 9 (2014) can be found in Note 3 of the August 1, 2015 unaudited condensed consolidated interim financial statements; partially offset by
- a foreign exchange gain of \$2.5 million for the second quarter of fiscal 2016 (gain of \$0.3 million for the second quarter of fiscal 2015), largely attributable to foreign exchange impact on U.S. denominated monetary assets and liabilities.

For the second quarter of fiscal 2016, earnings before income taxes were \$0.5 million as compared to \$11.9 million for the second quarter of fiscal 2015, a decrease of \$11.4 million. The decrease in earnings before income taxes in the second quarter of fiscal 2016 was primarily attributable to reduced gross margins combined with a \$5.2 million loss due to a change in the fair value of marketable securities, as explained above. Adjusted EBITDA for the second quarter of fiscal 2016 was \$17.4 million as compared with \$23.6 million for the second quarter of fiscal 2015, a decrease of \$6.2 million.

Income tax expense for the second quarter of fiscal 2016 amounted to \$0.8 million for an effective tax rate of 142.0%. In the second quarter of fiscal 2015, income tax expense amounted to \$2.3 million for an effective tax rate of 19.7%. The effective tax rate for the second quarter of fiscal 2016 was impacted by the change in the fair value of marketable securities due to the adoption of IFRS 9 (2014). The Company's effective tax rates include the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

Net loss for the second quarter of fiscal 2016 was \$0.2 million (\$0.00 basic and diluted loss per share) as compared with net earnings of \$9.6 million (\$0.15 basic and diluted earnings per share) for the second quarter of fiscal 2015.

**OPERATING RESULTS FOR THE SIX MONTHS ENDED AUGUST 1, 2015 ("YEAR TO DATE FISCAL 2016") AND COMPARISON TO OPERATING RESULTS FOR THE SIX MONTHS ENDED AUGUST 2, 2014 ("YEAR TO DATE FISCAL 2015")**

Sales for the year to date fiscal 2016 were \$454.7 million as compared with \$464.8 million for the year to date fiscal 2015, a decrease of 2.2%. Same store sales increased 2.1% with stores decreasing 0.3% and e-commerce increasing 81.3%. The following factors impacted sales in the year to date fiscal 2016:

- a net reduction of 51 stores, primarily attributable to the closure of Smart Set stores;
- stores were impacted by e-commerce alternatives and a highly competitive environment;
- e-commerce sales continued to show strong growth, although representing a small portion of total Company sales.

Gross profit for the year to date fiscal 2016 decreased \$13.0 million or 4.8% to \$259.3 million as compared with \$272.3 million for year to date fiscal 2015. Gross margin for the year to date fiscal 2016 decreased to 57.0% from 58.6% for the year to date fiscal 2015. The reduction in the gross profit is largely attributable to the negative effect of foreign exchange (average rate for the U.S. dollar ranging between \$1.20 and \$1.31 Canadian during the year to date fiscal 2016 as compared to \$1.06 and \$1.13 Canadian in the year to date fiscal 2015). For the year to date fiscal 2016 as compared to the year to date fiscal 2015, the fluctuation of the U.S. dollar negatively impacted gross margin by approximately \$10.3 million.

Selling and distribution expenses for the year to date fiscal 2016 decreased 3.4% or \$8.4 million to \$243.7 million as compared with \$252.1 million for the year to date fiscal 2015. Factors contributing to this change included:

- a decrease in store operating costs due to a net reduction of 51 stores;
- a reduction in the employee performance incentive plan expense that is based on the attainment of operating performance targets;
- lower depreciation and amortization for the year to date fiscal 2016 of \$23.3 million, compared to \$24.6 million for the year to date fiscal 2015;
- increased net impairment losses and write-offs of property, equipment and intangibles relating to underperforming stores and store closures (\$2.7 million for the year to date fiscal 2016 and \$2.5 million for the year to date fiscal 2015).

Administrative expenses for the year to date fiscal 2016 decreased 10.7% or \$2.7 million to \$23.1 million as compared with \$25.8 million for the year to date fiscal 2015 primarily due to:

- a reduction in the employee performance incentive plan expense that is based on the attainment of operating performance targets;
- a reduction in severance expense;
- lower depreciation and amortization for the year to date fiscal 2016 of \$0.8 million, compared to \$1.3 million for the year to date fiscal 2015.

Net finance costs were \$1.9 million for the year to date fiscal 2016 as compared to net finance income of \$0.8 million for the year to date fiscal 2015. This change is largely attributable to the following:

- a \$6.4 million loss due to a change in the fair value of marketable securities for the year to date fiscal 2016 compared to nil for the year to date fiscal 2015. The Company adopted IFRS 9 (2014) in the first quarter of fiscal 2016 and as a result, changes in fair value of marketable securities are now recorded in earnings as opposed to other comprehensive income in the comparative period. The full impact from the implementation of IFRS 9 (2014) can be found in Note 3 of the August 1, 2015 unaudited condensed consolidated interim financial statements; partially offset by
- a foreign exchange gain of \$3.1 million for the year to date fiscal 2016 (loss of \$0.6 million for year to date of fiscal 2015), largely attributable to foreign exchange impact on U.S. denominated monetary assets and liabilities.

For the year to date fiscal 2016, loss before income taxes was \$9.4 million as compared to \$4.9 million for the year to date fiscal 2015, an increase of \$4.5 million. The increase was primarily attributable to reduced gross profit in the year to date fiscal 2016, as explained above, mitigated by reduced operating costs both at the store level and head office along with a \$6.4 million loss for the year to date fiscal 2016 due to a change in the fair value of marketable securities. Adjusted EBITDA for the year to date fiscal 2016 was \$19.7 million as compared with \$19.5 million for the year to date fiscal 2015, an increase of \$0.2 million.

Income tax recovery for the year to date fiscal 2016 amounted to \$1.5 million for an effective tax recovery rate of 16.1%. In the year to date fiscal 2015, income tax recovery amounted to \$1.1 million for an effective tax recovery rate of 21.9%. The effective tax rate for the year to date fiscal 2016 was impacted by the change in the fair value of marketable securities due to the adoption of IFRS 9 (2014). The Company's effective tax rates include the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

Net loss for the year to date fiscal 2016 was \$7.9 million (\$0.12 basic and diluted loss per share) as compared with \$3.9 million (\$0.06 basic and diluted loss per share) for the year to date fiscal 2015.

The Company imports a majority of its merchandise purchases from foreign vendors, with lead times in some cases extending twelve months. The Company enters into foreign exchange forward contracts to hedge a significant portion of its exposure to fluctuations in the value of the U.S. dollar generally up to twelve months in advance. In the year to date fiscal 2016, the Company satisfied its U.S. dollar requirements through a combination of foreign exchange forward and option contracts and spot purchases. The Company entered into transactions with its banks whereby it purchased forward and call options and sold put options, all on the U.S. dollar. Purchased call options and sold put options expiring on the same date have the same strike price. In the year to date fiscal 2016, these merchandise purchases, payable in U.S. dollars, approximated \$122 million U.S. The Company's U.S. dollar holdings, along with contracts to purchase U.S. dollars are sufficient to satisfy over 80% of projected U.S. dollar denominated merchandise purchases for the remainder of the fiscal year ending January 30, 2016 with any additional requirements being met through spot U.S. dollar purchases. In the year to date fiscal 2016, the Company recorded a \$3.6 million foreign exchange gain as a component of other comprehensive income related to foreign exchange contracts that it designated as cash flow hedging instruments under IFRS 9 (2014).

Details of the foreign currency contracts outstanding as at August 1, 2015 are as follows:

	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
<b>Foreign exchange contracts designated as cash flow hedges:</b>					
Forwards	\$ 1.207	\$ 108.5	\$ 11.0	\$ –	\$ 11.0
Call options purchased	\$ 1.188	\$ 18.0	2.2	–	2.2
Put options sold	\$ 1.188	\$ 9.0	–	–	–
			<u>\$ 13.2</u>	<u>\$ –</u>	<u>\$ 13.2</u>

Details of the foreign currency option contracts outstanding as at August 2, 2014 are as follows:

	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
<b>Foreign exchange contracts classified at FVTPL<sup>1</sup>:</b>					
Call options purchased	\$ 1.092	\$ 160.0	\$ 3.3	\$ –	\$ 3.3
Put options sold	\$ 1.092	\$ 290.0	–	(4.0)	(4.0)
			<u>\$ 3.3</u>	<u>\$ (4.0)</u>	<u>\$ (0.7)</u>

Details of the foreign currency contracts outstanding as at January 31, 2015 are as follows:

	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
<b>Foreign exchange contracts designated as cash flow hedges:</b>					
Forwards	\$ 1.183	\$ 69.5	\$ 6.3	\$ –	\$ 6.3
Call options purchased	\$ 1.188	\$ 23.0	2.1	–	2.1
Put options sold	\$ 1.188	\$ 11.5	–	(0.1)	(0.1)
<b>Foreign exchange contracts classified at FVTPL<sup>1</sup>:</b>					
Call options purchased	\$ 1.081	\$ 64.0	12.2	–	12.2
Put options sold	\$ 1.081	\$ 128.0	–	–	–
			<u>\$ 20.6</u>	<u>\$ (0.1)</u>	<u>\$ 20.5</u>

<sup>1</sup> Fair value through profit or loss ("FVTPL") are held as economic hedges.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## SUMMARY OF QUARTERLY RESULTS

The table below sets forth selected consolidated financial data for the eight most recently completed quarters. This unaudited quarterly information has been prepared in accordance with IFRS. All references to "2016" are to the Company's fiscal year ending January 30, 2016, to "2015" are to the Company's fiscal year ending January 31, 2015 and to "2014" are to the Company's fiscal year ended February 1, 2014.

	SECOND QUARTER		FIRST QUARTER		FOURTH QUARTER		THIRD QUARTER	
	2016	2015	2016	2015	2015	2014	2015	2014
Sales	\$ 253.0	\$ 258.3	\$ 201.7	\$ 206.5	\$ 236.3	\$ 240.7	\$ 238.3	\$ 249.4
Net (loss) earnings	(0.2)	9.6	(7.7)	(13.4)	4.4	(2.6)	12.9	5.8
(Loss) earnings per share								
Basic	\$ —	\$ 0.15	\$ (0.12)	\$ (0.21)	\$ 0.07	\$ (0.04)	\$ 0.20	\$ 0.09
Diluted	—	0.15	(0.12)	(0.21)	0.07	(0.04)	0.20	0.09

Fluctuations in the above-noted quarterly financial information reflect the underlying operations of the Company as well as the impact of merchandise discounting at the Thyme Maternity shop-in-shop boutiques in the U.S. in the fourth quarter of fiscal 2014. Financial results are also affected by seasonality and the timing of holidays. Due to seasonality the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year.

## BALANCE SHEET

Selected line items from the Company's balance sheets as at August 1, 2015 as compared to January 31, 2015 are presented below:

	AUGUST 1, 2015	JANUARY 31, 2015
Cash and cash equivalents	\$ 114.4	\$ 139.9
Marketable securities	54.9	57.4
Net derivative financial asset	13.2	20.5
Inventories	131.5	106.4
Prepaid expenses	9.0	12.1
Property and equipment and intangible assets	164.5	172.4
Trade and other payables	103.8	101.6
Deferred revenue	16.0	21.1

Significant changes in selected items at August 1, 2015 as compared to January 31, 2015 were primarily due to:

- cash and cash equivalents decreased primarily due to reduced cash flows from operations, notably as a result of the anticipated build-up of inventory for the fall selling season, along with the purchase of Class A non-voting shares for cancellation;
- marketable securities, recorded at fair value, have declined due to the influences of lower interest rates and recent stock market declines;
- the Company has recorded a net derivative financial asset, related to foreign exchange contracts. The reduction in the net derivative financial asset is attributable to the impact of mark-to-market adjustments on foreign exchange contracts;
- inventories were higher due to the impact of a weaker Canadian dollar vis-à-vis the U.S. dollar resulting in increased merchandise costs along with an anticipated build-up of inventories for the fall selling season;
- decreased prepaid expenses at August 1, 2015 as compared to January 31, 2015 is principally due to the recovery of a prepaid insurance deposit resulting from a reorganization of the Company's general liability property insurance;
- the Company continues to closely manage its investment in property and equipment and intangible assets. For the year to date fiscal 2016, \$19.2 million was invested in additions to property and equipment and intangible assets. Depreciation, amortization and net impairment losses of \$24.1 million was recognized for the year to date fiscal 2016, contributing to a lower carrying value;
- trade and other payables were higher mainly due to the timing of payments for trade payables and various sales and withholding taxes. The Company's trade and other payables consist largely of trade payables, personnel liabilities, payables relating to premises and sales tax liabilities;
- deferred revenue decreased largely due to lower gift card liability as a result of the traditional pattern of redemption of gift cards from the Christmas holiday season. Deferred revenue consists of unredeemed gift cards, loyalty points and awards granted under customer loyalty programs. Revenue is recognized when the gift cards, loyalty points and awards are redeemed.

## OPERATING AND FINANCIAL RISK MANAGEMENT

Detailed descriptions of the operating and financial risks management strategies are included in the Company's annual MD&A and annual information form for the year ended January 31, 2015 (which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)).

There have been no significant changes in the Company's operating and financial risk exposures during the six months ended August 1, 2015.

## LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Shareholders' equity as at August 1, 2015 amounted to \$406.5 million or \$6.36 per share (August 2, 2014 – \$415.6 million or \$6.44 per share; January 31, 2015 – \$421.1 million or \$6.52 per share). The Company continues to be in a strong financial position with its principal sources of liquidity in cash and cash equivalents and investments in marketable securities of \$169.4 million as at August 1, 2015 (August 2, 2014 – \$166.3 million; January 31, 2015 – \$197.3 million). Cash is held in interest bearing accounts and in short-term deposits with major Canadian financial institutions. The Company closely monitors its risk with respect to short-term cash investments. The Company has unsecured borrowing and working capital credit facilities available up to an amount of \$100.0 million or its U.S. dollar equivalent. As at August 1, 2015, \$15.3 million (August 2, 2014 – \$32.5 million; January 31, 2015 – \$30.0 million) of the operating lines of credit were committed for documentary and standby letters of credit. These credit facilities are used principally for U.S. dollar letters of credit to satisfy international third-party vendors which require such backing before confirming purchase orders issued by the Company and to support U.S. dollar foreign exchange forward contract purchases. The Company rarely uses such credit facilities for other purposes.

The Company has granted irrevocable standby letters of credit, issued by highly-rated financial institutions, to third parties to indemnify them in the event the Company does not perform its contractual obligations. As at August 1, 2015, the maximum potential liability under these guarantees was \$2.8 million (August 2, 2014 – \$5.0 million; January 31, 2015 – \$5.0 million). The standby letters of credit mature at various dates during fiscal 2016. The Company has recorded no liability with respect to these guarantees, as the Company does not expect to make any payments for these items.

The Company continues repayment on its long-term debt, relating to the mortgage on the distribution centre, paying down \$0.4 million in the second quarter of fiscal 2016. The Company paid \$0.05 dividends per share in the second quarter of fiscal 2016 totalling \$3.2 million compared to \$0.05 dividends per share totalling \$3.2 million in the second quarter of fiscal 2015. With regard to dividend policy, the Board of Directors considers the Company's earnings per share, cash flow from operations, the level of planned capital expenditures and its cash and marketable securities. The targeted payout ratio is approximately 50% to 80% of sustainable earnings per share, 50% to 75% of cash flow from operations with consideration as to the ability to augment the dividend from the liquidity on the Company's balance sheet, if these targets are missed in a given year. The Board of Directors reviews these guidelines regularly.

The Company continues its implementation of a major systems development project ("SCORE"). The functionality offered by this project which spans warehousing and distribution, merchandising, operations and finance is projected for completion in fiscal 2017. Projected costs to completion are estimated at \$40.0 million of which approximately \$32.0 million has been incurred to date.

In the second quarter of fiscal 2016, the Company invested \$9.1 million, on a cash basis, primarily on new and renovated stores. In fiscal 2016, the Company expects to invest approximately \$35.0 million in capital expenditures, including in its SCORE project. These expenditures, together with the payment of dividends, the repayments related to the Company's bank credit facility and long-term debt obligations, are expected to be funded by the Company's existing financial resources and funds derived from its operations.

## 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 31, 2015.

### **OUTSTANDING SHARE DATA**

At September 10, 2015, 13,440,000 Common shares and 50,519,366 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 3,929,800 share options outstanding at an average exercise price of \$9.60. 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.

In the second quarter of fiscal 2016 the Company purchased, under the normal course issuer bid approved in December 2014, 626,340 Class A non-voting shares having a carrying value of \$0.4 million for a total cash consideration of \$4.3 million. The excess of the purchase price over carrying value of the shares in the amount of \$3.9 million was charged to retained earnings. For further information with respect to the normal course issuer bid refer to the Company's audited annual consolidated financial statements for the year ended January 31, 2015.

### **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 option contracts and forward foreign exchange contracts with maturities not exceeding twelve months.

Details of the foreign currency contracts outstanding as at August 1, 2015, August 2, 2014 and as at January 31, 2015 are included in the "Operating Results for the Six Months Ended August 1, 2015 and Comparison to Operating Results for the Six Months Ended August 2, 2014" section of this MD&A.

A foreign currency option contract represents an option (call option) or obligation (put option) to buy a foreign currency from a counterparty at a predetermined date and amount. 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 Canadian chartered banks. The Company does not use derivative financial instruments for speculative purposes.

### **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 31, 2015.

## FINANCIAL INSTRUMENTS

The Company is highly liquid with significant cash and cash equivalents along with marketable securities. The Company uses its cash resources to fund ongoing store construction and renovations along with working capital needs. Financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, 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. Marketable securities consist primarily of preferred shares of Canadian public companies. The Company's investment portfolio is subject to stock market volatility.

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.

## KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGMENTS MADE IN RELATION TO ACCOUNTING POLICIES APPLIED

There have been no significant changes in the key sources of estimation uncertainty and judgments made in relation to the accounting policies applied as disclosed in the Company's annual MD&A for the year ended January 31, 2015 (which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)).

## SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended January 31, 2015 have been applied consistently in the preparation of the unaudited condensed consolidated interim financial statements except as noted below:

### ANNUAL IMPROVEMENTS TO IFRS (2010–2012) AND (2011–2013) CYCLES

On December 12, 2013 the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. Most amendments applied prospectively for annual periods beginning on or after July 1, 2014. Adoption of these amendments did not have a material impact on the consolidated financial statements.

### IFRS 9 (2014) – FINANCIAL INSTRUMENTS

The Company early adopted all of the requirements of IFRS 9 (2014), *Financial Instruments* ("IFRS 9 (2014)") with a date of initial application of February 1, 2015. This standard establishes principles for the financial reporting classification and measurement of financial assets and financial liabilities. This standard also incorporates a new hedging model which increases the scope of hedged items eligible for hedge accounting and aligns hedge accounting more closely with risk management. This standard also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. This new standard also increases required disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the consolidated financial statements.

IFRS 9 (2014) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39, *Financial Instruments – Recognition and Measurement* ("IAS 39"). The approach in IFRS 9 (2014) is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 (2014).

The impact from the implementation of IFRS 9 (2014) can be found in Note 3 of the August 1, 2015 unaudited condensed consolidated interim financial statements.

### NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the six months ended August 1, 2015 and have not been applied in preparing the unaudited condensed consolidated interim financial statements. New standards and amendments to standards and interpretations that are currently under review include:

- IFRS 15 – *Revenue from Contracts with Customers*
- Disclosure Initiative: Amendments to IAS 1

Further information on these modifications can be found in Note 3 of the August 1, 2015 unaudited condensed consolidated interim financial statements.

### CONTROLS AND PROCEDURES

#### DISCLOSURE CONTROLS AND PROCEDURES ("DC&P")

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have designed DC&P, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Company is made known to the CEO and CFO by others, particularly during the period in which the interim and annual filings are being prepared; and
- information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

#### INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")

The CEO and CFO have also designed ICFR, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The control framework used to design the Company's ICFR is based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013).

#### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes were made to the Company's ICFR during the six months ended August 1, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## **OUTLOOK**

The retail environment continues to be highly competitive with increased competition due to the entrance of new retailers in the Canadian marketplace. Additionally, consumers have many options available to respond to their shopping needs including traditional stores or e-commerce fulfillment. The decline in the Canadian dollar vis-à-vis the U.S. dollar contributes to reduced cross border shopping, however it also increases the cost of inputs for Canadian retailers. The Company considers these factors along with changes in consumer shopping behaviours and economic conditions when evaluating the Company's product sourcing and pricing strategies.

The Company has made significant changes in branding among its banners with consumers showing positive acceptance as the changes take effect. The decision to close the Smart Set banner demonstrates the Company's commitment to improving profitability and focusing its efforts on segments where it is dominant in the marketplace. The Company has invested considerably in its information technology and handling systems. In addition, cost reduction and process improvement initiatives have started to yield results. In conjunction, the Company will leverage its technology with improved systems and processes as part of the SCORE project while continuing further process improvement initiatives.

The Company operates a Hong Kong office which is dedicated to seeking out the highest quality, affordable and fashionable apparel for all of our banners. A comprehensive review of the Company's global sourcing strategy and execution has been undertaken with a goal of reducing lead time for bringing products to market.

The Company has a strong balance sheet, with excellent liquidity and borrowing capacity providing the ability to act when opportunities present themselves in whatever format including merchandising, store acquisition/construction, system replacements/upgrading or expansion by acquisition. The Company believes in the strength of its employees and is committed to continue to invest in training for all levels.

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(UNAUDITED)  
(IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS)

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	AUGUST 1, 2015	AUGUST 2, 2014	AUGUST 1, 2015	AUGUST 2, 2014
Sales	\$ 252,998	\$ 258,326	\$ 454,729	\$ 464,804
Cost of goods sold (note 6)	113,835	105,833	195,471	192,541
Gross profit	139,163	152,493	259,258	272,263
Selling and distribution expenses	124,779	126,881	243,660	252,142
Administrative expenses	11,701	14,706	23,079	25,844
Results from operating activities	2,683	10,906	(7,481)	(5,723)
Finance income (note 12)	3,169	1,137	4,646	1,641
Finance costs (note 12)	5,323	140	6,573	855
Earnings (loss) before income taxes	529	11,903	(9,408)	(4,937)
Income tax (expense) recovery (note 11)	(751)	(2,346)	1,515	1,079
<b>Net (loss) earnings</b>	<b>\$ (222)</b>	<b>\$ 9,557</b>	<b>\$ (7,893)</b>	<b>\$ (3,858)</b>
Earnings (loss) per share (note 13):				
Basic	\$ 0.00	\$ 0.15	\$ (0.12)	\$ (0.06)
Diluted	0.00	0.15	(0.12)	(0.06)

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

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)  
(IN THOUSANDS OF CANADIAN DOLLARS)

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	AUGUST 1, 2015	AUGUST 2, 2014	AUGUST 1, 2015	AUGUST 2, 2014
Net (loss) earnings	\$ (222)	\$ 9,557	\$ (7,893)	\$ (3,858)
Other comprehensive income (loss)				
Items that are or may be reclassified subsequently to net earnings:				
Net change in fair value of available-for-sale financial assets (net of tax of \$49 for the three months ended August 2, 2014 and \$362 for the six months ended August 2, 2014) (note 9)	–	317	–	2,367
Net gain on derivatives designated as cash flow hedges (net of tax of \$2,829 for the three months ended August 1, 2015 and \$1,323 for the six months ended August 1, 2015; 2014 – nil) (note 9)	7,808	–	3,639	–
Foreign currency translation differences (note 9)	(301)	22	(119)	(151)
Total other comprehensive income	7,507	339	3,520	2,216
<b>Total comprehensive income (loss)</b>	<b>\$ 7,285</b>	<b>\$ 9,896</b>	<b>\$ (4,373)</b>	<b>\$ (1,642)</b>

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

**CONDENSED CONSOLIDATED  
BALANCE SHEETS**

(UNAUDITED)  
(IN THOUSANDS OF CANADIAN DOLLARS)

	AUGUST 1, 2015	AUGUST 2, 2014	JANUARY 31, 2015
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (note 4)	\$ 114,422	\$ 113,380	\$ 139,913
Marketable securities	54,930	52,905	57,364
Trade and other receivables	4,803	5,160	4,599
Derivative financial asset (note 5)	13,166	3,343	20,635
Income taxes recoverable	2,226	2,123	1,977
Inventories (note 6)	131,488	112,455	106,440
Prepaid expenses	8,983	27,134	12,148
<b>Total Current Assets</b>	<b>330,018</b>	<b>316,500</b>	<b>343,076</b>
<b>NON-CURRENT ASSETS</b>			
Property and equipment	141,957	164,375	152,349
Intangible assets	22,535	18,287	20,077
Goodwill	42,426	42,426	42,426
Deferred income taxes	27,975	30,729	26,463
<b>Total Non-Current Assets</b>	<b>234,893</b>	<b>255,817</b>	<b>241,315</b>
<b>TOTAL ASSETS</b>	<b>\$ 564,911</b>	<b>\$ 572,317</b>	<b>\$ 584,391</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables (note 7)	\$ 94,741	\$ 87,550	\$ 91,719
Derivative financial liability (note 5)	1	4,057	96
Deferred revenue (note 8)	15,956	15,359	21,073
Current portion of long-term debt	1,837	1,725	1,780
<b>Total Current Liabilities</b>	<b>112,535</b>	<b>108,691</b>	<b>114,668</b>
<b>NON-CURRENT LIABILITIES</b>			
Other payables (note 7)	9,060	10,855	9,903
Deferred lease credits	11,914	13,921	13,178
Long-term debt	2,618	4,456	3,551
Pension liability	22,315	18,749	21,968
<b>Total Non-Current Liabilities</b>	<b>45,907</b>	<b>47,981</b>	<b>48,600</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (note 9)	38,814	39,227	39,227
Contributed surplus	8,464	7,503	8,014
Retained earnings	350,370	359,343	368,241
Accumulated other comprehensive income (note 9)	8,821	9,572	5,641
<b>Total Shareholders' Equity</b>	<b>406,469</b>	<b>415,645</b>	<b>421,123</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 564,911</b>	<b>\$ 572,317</b>	<b>\$ 584,391</b>

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

# CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)  
(IN THOUSANDS OF CANADIAN DOLLARS)

	NOTE	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
Balance as at February 1, 2015		\$ 39,227	\$ 8,014	\$ 368,241	\$ 5,641	\$ 421,123
IFRS 9 (2014) adoption adjustment	3a	–	–	340	(340)	–
Adjusted balance as at February 1, 2015		39,227	8,014	368,581	5,301	421,123
Total comprehensive loss for the period						
Net loss		–	–	(7,893)	–	(7,893)
Total other comprehensive income		–	–	–	3,520	3,520
Total comprehensive loss for the period		–	–	(7,893)	3,520	(4,373)
Contributions by (distributions to) owners of the Company						
Cash consideration on exercise of share options	9	2	–	–	–	2
Cancellation of shares pursuant to share repurchase program	9	(415)	–	–	–	(415)
Share-based compensation costs	10	–	450	–	–	450
Dividends	9	–	–	(6,427)	–	(6,427)
Premium on repurchase of Class A non-voting shares		–	–	(3,891)	–	(3,891)
Total (distributions to) contributions by owners of the Company		(413)	450	(10,318)	–	(10,281)
Balance as at August 1, 2015		\$ 38,814	\$ 8,464	\$ 350,370	\$ 8,821	\$ 406,469
Balance as at February 2, 2014		\$ 39,227	\$ 7,188	\$ 369,660	\$ 7,356	\$ 423,431
Total comprehensive loss for the period						
Net loss		–	–	(3,858)	–	(3,858)
Total other comprehensive income		–	–	–	2,216	2,216
Total comprehensive loss for the period		–	–	(3,858)	2,216	(1,642)
Contributions by (distributions to) owners of the Company						
Share-based compensation costs	10	–	315	–	–	315
Dividends	9	–	–	(6,459)	–	(6,459)
Total contributions by (distributions to) owners of the Company		–	315	(6,459)	–	(6,144)
Balance as at August 2, 2014		\$ 39,227	\$ 7,503	\$ 359,343	\$ 9,572	\$ 415,645

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

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)  
(IN THOUSANDS OF CANADIAN DOLLARS)

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	AUGUST 1, 2015	AUGUST 2, 2014	AUGUST 1, 2015	AUGUST 2, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net (loss) earnings	\$ (222)	\$ 9,557	\$ (7,893)	\$ (3,858)
Adjustments for:				
Depreciation, amortization and net impairment losses	12,226	12,364	24,106	25,831
Share-based compensation costs	312	242	450	315
Amortization of deferred lease credits	(991)	(926)	(2,434)	(1,955)
Deferred lease credits	785	73	1,170	269
Pension contribution	(428)	(207)	(703)	(494)
Pension expense	525	492	1,050	984
Realized loss on sale of marketable securities	15	37	15	61
Impairment loss on available-for-sale financial assets	-	-	-	10
Net change in fair value of marketable securities	5,233	-	6,401	-
Net change in fair value of derivatives	2,799	2,395	12,335	9,424
Foreign exchange gain on cash and cash equivalents	(4,521)	(406)	(5,467)	(1,086)
Interest and dividend income, net	(643)	(671)	(1,428)	(1,369)
Interest paid	(75)	(103)	(157)	(211)
Interest received	127	183	379	381
Dividends received	635	629	1,248	1,439
Income tax expense (recovery)	751	2,346	(1,515)	(1,079)
	<b>16,528</b>	<b>26,005</b>	<b>27,557</b>	<b>28,662</b>
Changes in:				
Trade and other receivables	1,248	1,944	(246)	1,028
Inventories	3,489	8,287	(25,048)	(2,854)
Prepaid expenses	15,413	(1,372)	3,165	(14,622)
Trade and other payables	24,702	13,795	5,233	(4,333)
Deferred revenue	(159)	(168)	(5,117)	(4,639)
Cash from operating activities	61,221	48,491	5,544	3,242
Income taxes received	-	5,133	2	5,133
Income taxes paid	(392)	(838)	(1,570)	(3,033)
Net cash flows from operating activities	<b>60,829</b>	<b>52,786</b>	<b>3,976</b>	<b>5,342</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Purchases of marketable securities	(2,924)	(80)	(5,660)	(185)
Proceeds on sale of marketable securities	1,678	2,500	1,678	5,000
Proceeds on sales of trademarks	-	26	-	55
Additions to property and equipment and intangible assets	(9,094)	(6,444)	(19,226)	(12,779)
Cash flows used in investing activities	<b>(10,340)</b>	<b>(3,998)</b>	<b>(23,208)</b>	<b>(7,909)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>				
Dividends paid	(3,198)	(3,230)	(6,427)	(6,459)
Purchase of Class A non-voting shares for cancellation	(4,306)	-	(4,306)	-
Repayment of long-term debt	(441)	(415)	(876)	(822)
Proceeds from issuance of share capital	-	-	2	-
Cash flows used in financing activities	<b>(7,945)</b>	<b>(3,645)</b>	<b>(11,607)</b>	<b>(7,281)</b>
FOREIGN EXCHANGE GAIN ON CASH HELD IN FOREIGN CURRENCY	4,220	389	5,348	873
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>46,764</b>	<b>45,532</b>	<b>(25,491)</b>	<b>(8,975)</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	<b>67,658</b>	<b>67,848</b>	<b>139,913</b>	<b>122,355</b>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<b>\$ 114,422</b>	<b>\$ 113,380</b>	<b>\$ 114,422</b>	<b>\$ 113,380</b>

Supplementary cash flow information (note 14)

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

(UNAUDITED)

## 1 REPORTING ENTITY

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

## 2 BASIS OF PRESENTATION

### A) STATEMENT OF COMPLIANCE

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended January 31, 2015. Certain comparative figures have been reclassified to conform to the current year's presentation.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on September 10, 2015.

### B) BASIS OF MEASUREMENT

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

- marketable securities and derivative financial instruments are measured at fair value; and
- the pension liability is recognized as the present value of the defined benefit obligation less the fair value of the plan assets.

### C) SEASONALITY OF INTERIM OPERATIONS

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

### D) FUNCTIONAL AND PRESENTATION CURRENCY

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

### E) ESTIMATES, JUDGMENTS AND ASSUMPTIONS

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied and described in the Company's audited annual consolidated financial statements for the year ended January 31, 2015.

### 3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended January 31, 2015 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements except as noted below:

#### A) ADOPTION OF NEW ACCOUNTING POLICIES

##### ANNUAL IMPROVEMENTS TO IFRS (2010–2012) AND (2011–2013) CYCLES

On December 12, 2013 the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvements process. Most amendments applied prospectively for annual periods beginning on or after July 1, 2014. Adoption of these amendments did not have a material impact on the condensed consolidated interim financial statements.

##### IFRS 9 (2014) – FINANCIAL INSTRUMENTS

The Company early adopted all of the requirements of IFRS 9 (2014), *Financial Instruments* ("IFRS 9 (2014)") with a date of initial application of February 1, 2015. This standard establishes principles for the financial reporting classification and measurement of financial assets and financial liabilities. This standard also incorporates a new hedging model which increases the scope of hedged items eligible for hedge accounting and aligns hedge accounting more closely with risk management. This standard also amends the impairment model by introducing a new "expected credit loss" model for calculating impairment. This new standard also increases required disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the consolidated financial statements.

IFRS 9 (2014) uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39, *Financial Instruments – Recognition and Measurement* ("IAS 39"). The approach in IFRS 9 (2014) is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 (2014).

The following summarizes the classification and measurement changes for the Company's non-derivative and derivative financial assets and financial liabilities as a result of the adoption of IFRS 9 (2014).

	IAS 39	IFRS 9 (2014)
<b>Financial assets:</b>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Marketable securities	Available-for-sale	Fair value through profit or loss
Trade and other receivables	Loans and receivables	Amortized cost
Non-hedge derivative assets	Fair value through profit or loss	Fair value through profit or loss
<b>Financial liabilities:</b>		
Trade and other payables	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Non-hedge derivative liabilities	Fair value through profit or loss	Fair value through profit or loss

In accordance with the transitional provisions of IFRS 9 (2014) the financial assets and financial liabilities held at February 1, 2015 were reclassified retrospectively without prior period restatement based on the new classification requirements and the characteristics of each financial instrument at February 1, 2015.

The accounting for these instruments and the line item in which they are included in the statement of financial position were unaffected by the adoption of IFRS 9 (2014) with the exception of the Company's marketable securities, which were reclassified from available-for-sale to financial assets measured at fair value through profit or loss ("FVTPL"). Fair value gains and losses on marketable securities are recognized in finance income or finance cost in net earnings (note 12). In accordance with transitional provisions, the Company has reflected the retrospective impact of the adoption of IFRS 9 (2014) due to the change in accounting policy for marketable securities as an adjustment to opening components of equity as at February 1, 2015.

**NOTES**  
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	FEBRUARY 1, 2015		
	AS PRESENTED	RESTATEMENTS	AS RESTATED
<b>Equity</b>			
Retained earnings	\$ 368,241	\$ 340	\$ 368,581
Accumulated other comprehensive income	5,641	(340)	5,301
Impact on equity	\$ 373,882	\$ –	\$ 373,882

The adoption of IFRS 9 (2014) did not result in any changes in the eligibility of existing hedge relationships, the accounting for the derivative financial instruments designated as effective hedging instruments and the line item in which they are included in the statement of financial position.

**UPDATE TO SIGNIFICANT ACCOUNTING POLICIES**

As a result of the initial adoption of IFRS 9 (2014), as described above, the Company has updated its significant accounting policies as follows:

**FINANCIAL INSTRUMENTS**

The Company initially recognizes financial assets on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Company classifies its financial assets as subsequently measured at either amortized cost or fair value, depending on its business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

**I) FINANCIAL ASSETS MEASURED AT AMORTIZED COST**

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment loss, if:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and/or interest.

The Company currently classifies its cash and cash equivalents and trade and other receivables as assets measured at amortized cost.

**IMPAIRMENT OF FINANCIAL ASSETS:**

The Company uses the "expected credit loss" model for calculating impairment and recognizes expected credit losses as a loss allowance in the consolidated balance sheet if they relate to a financial asset measured at amortized cost. The Company's trade and other receivables, typically short term receivables with payments received within a 12-month period, do not have a significant financing component. Therefore, the Company recognizes impairment and measures expected credit losses as lifetime expected credit losses. The carrying amount of these assets in the consolidated balance sheet is stated net of any loss allowance.

**II) FINANCIAL ASSETS MEASURED AT FAIR VALUE**

These assets are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss. The marketable securities are currently measured at fair value with changes in fair value recognized in profit or loss.

However, for investments in equity instruments that are not held for trading, the Company may elect at initial recognition to present gains and losses in other comprehensive income. For such investments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss, and no impairment is recognized in profit or loss. Dividends earned from such investments are recognized in profit or loss, unless the dividend clearly represents a repayment of part of the cost of the investment.

**III) FINANCIAL LIABILITIES ARE CLASSIFIED INTO THE FOLLOWING CATEGORIES**

**FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST:**

The Company classifies non-derivative financial liabilities as measured at amortized cost. Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method. The Company currently classifies trade and other payables and long-term debt as financial liabilities measured at amortized cost.

**FINANCIAL LIABILITIES MEASURED AT FAIR VALUE:**

Financial liabilities measured at fair value are initially recognized at fair value and are re-measured at each reporting date with any changes therein recognized in profit or loss. The Company currently has no financial liabilities measured at fair value.

**IV) NON-HEDGE DERIVATIVE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE**

Non-hedge derivative financial instruments, including foreign exchange contracts, are recorded as either assets or liabilities measured initially at their fair value. Attributable transaction costs are recognized in profit or loss as incurred. All derivative financial instruments not designated in a hedge relationship are classified as financial instruments at fair value through profit and loss. Any subsequent change in the fair value of non-hedge foreign exchange contracts are accounted for in cost of goods sold for the period in which it arises.

**V) HEDGING RELATIONSHIPS:**

The Company enters into derivative financial instruments to hedge its foreign exchange risk exposures of part of its purchases in U.S. dollars. On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated.

For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net earnings. The time value component of options designated as cash flow hedges is excluded from the hedging relationships and recorded in other comprehensive income as a cost of hedging and, presented separately when significant.

Derivatives used for hedging are recognized initially at fair value, and attributable transaction costs are recognized in net earnings as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

**CASH FLOW HEDGES:**

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect net earnings, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in accumulated other comprehensive income as part of equity. The amount recognized in other comprehensive income is removed and included in net earnings under the same line item in the consolidated statement of earnings and comprehensive income as the hedged item, in the same period that the hedged cash flows affect net earnings. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in net earnings. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income remains in accumulated other comprehensive income until the forecasted transaction affects profit or loss. If the forecasted transaction is no longer expected to occur, then the balance in accumulated other comprehensive income is recognized immediately in net earnings.

When the hedged item is a non-financial asset, the amount recognized in other comprehensive income is transferred directly to the initial cost of that asset.

**B) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the six months ended August 1, 2015 and have not been applied in preparing these unaudited condensed consolidated interim financial statements. New standards and amendments to standards and interpretations that are currently under review include:

**IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

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

**DISCLOSURE INITIATIVE: AMENDMENTS TO IAS 1**

On December 18, 2014 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports (the "Disclosure Initiative"). The amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

**NOTES**  
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**4 CASH AND CASH EQUIVALENTS**

	AUGUST 1, 2015	AUGUST 2, 2014	JANUARY 31, 2015
Cash on hand and with banks	\$ 112,422	\$ 56,867	\$ 106,917
Short-term deposits, bearing interest at 0.5% (August 2, 2014 – 0.5%; January 31, 2015 – 0.8%)	2,000	56,513	32,996
	<b>\$ 114,422</b>	<b>\$ 113,380</b>	<b>\$ 139,913</b>

**5 FINANCIAL INSTRUMENTS**

**ACCOUNTING CLASSIFICATION AND FAIR VALUES**

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

The fair value of the Company's marketable securities is determined by reference to their quoted closing prices in active markets at the reporting date, which is considered a Level 1 input in the fair value hierarchy. The fair value of the Company's long-term debt bearing interest at a fixed rate, which is determined for disclosure purposes, is calculated using the present value of future payments of principal and interest discounted at the current market rates of interest available to the Company for the same or similar debt instruments with the same remaining maturity, which is considered Level 2 input in the fair value hierarchy. The fair value of foreign currency option contracts is determined through a standard option valuation technique used by the counterparty based on Level 2 inputs.

	AUGUST 1, 2015						
	CARRYING AMOUNT			FAIR VALUE			
	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE OF HEDGING INSTRUMENTS	AMORTIZED COST	TOTAL	LEVEL 1	LEVEL 2	TOTAL
<b>Financial assets measured at fair value</b>							
Derivative financial asset	\$ –	\$ 13,166	\$ –	\$ 13,166	\$ –	\$ 13,166	\$ 13,166
Marketable securities	\$ 54,930	\$ –	\$ –	\$ 54,930	\$ 54,930	\$ –	\$ 54,930
<b>Financial liabilities measured at fair value</b>							
Derivative financial liability	\$ –	\$ (1)	\$ –	\$ (1)	\$ –	\$ (1)	\$ (1)
<b>Financial liabilities not measured at fair value</b>							
Long-term debt	\$ –	\$ –	\$ (4,455)	\$ (4,455)	\$ –	\$ (4,661)	\$ (4,661)

**NOTES**  
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	AUGUST 2, 2014						
	CARRYING AMOUNT				FAIR VALUE		
	FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE- FOR-SALE	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
<b>Financial assets</b>							
<b>measured at fair value</b>							
Derivative financial asset	\$ 3,343	\$ –	\$ –	\$ 3,343	\$ –	\$ 3,343	\$ 3,343
Marketable securities	\$ –	\$ 52,905	\$ –	\$ 52,905	\$ 52,905	\$ –	\$ 52,905
<b>Financial liabilities</b>							
<b>measured at fair value</b>							
Derivative financial liability	\$ (4,057)	\$ –	\$ –	\$ (4,057)	\$ –	\$ (4,057)	\$ (4,057)
<b>Financial liabilities</b>							
<b>not measured at fair value</b>							
Long-term debt	\$ –	\$ –	\$ (6,181)	\$ (6,181)	\$ –	\$ (6,538)	\$ (6,538)

	JANUARY 31, 2015							
	CARRYING AMOUNT				FAIR VALUE			
	FAIR VALUE THROUGH PROFIT OR LOSS	FAIR VALUE OF HEDGING INSTRUMENTS	AVAILABLE- FOR-SALE	OTHER FINANCIAL LIABILITIES	TOTAL	LEVEL 1	LEVEL 2	TOTAL
<b>Financial assets</b>								
<b>measured at fair value</b>								
Derivative financial asset	\$ 12,191	\$ 8,444	\$ –	\$ –	\$ 20,635	\$ –	\$ 20,635	\$ 20,635
Marketable securities	\$ –	\$ –	\$ 57,364	\$ –	\$ 57,364	\$ 57,364	\$ –	\$ 57,364
<b>Financial liabilities</b>								
<b>measured at fair value</b>								
Derivative financial liability	\$ (2)	\$ (94)	\$ –	\$ –	\$ (96)	\$ –	\$ (96)	\$ (96)
<b>Financial liabilities not</b>								
<b>measured at fair value</b>								
Long-term debt	\$ –	\$ –	\$ –	\$ (5,331)	\$ (5,331)	\$ –	\$ (5,621)	\$ (5,621)

There were no transfers between levels of the fair value hierarchy for the periods ended August 1, 2015, August 2, 2014 and January 31, 2015.

**DERIVATIVE FINANCIAL INSTRUMENTS**

The Company entered into transactions with its banks whereby it entered into forward contracts, purchased call options and sold put options, all on the U.S. dollar. These foreign exchange contracts extend over a period not exceeding twelve months. Purchased call options and sold put options expiring on the same date have the same strike price.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Details of the foreign exchange contracts outstanding are as follows:

	AUGUST 1, 2015				
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
<b>Foreign exchange contracts designated as cash flow hedges:</b>					
Forwards	\$ 1.207	\$ 108,500	\$ 10,999	\$ –	\$ 10,999
Call options purchased	\$ 1.188	\$ 18,000	2,167	–	2,167
Put options sold	\$ 1.188	\$ 9,000	–	(1)	(1)
			<u>\$ 13,166</u>	<u>\$ (1)</u>	<u>\$ 13,165</u>

	AUGUST 2, 2014				
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
<b>Foreign exchange contracts classified at FVTPL<sup>1</sup>:</b>					
Call options purchased	\$ 1.092	\$ 160,000	\$ 3,343	\$ –	\$ 3,343
Put options sold	\$ 1.092	\$ 290,000	–	(4,057)	(4,057)
			<u>\$ 3,343</u>	<u>\$ (4,057)</u>	<u>\$ (714)</u>

	JANUARY 31, 2015				
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
<b>Foreign exchange contracts designated as cash flow hedges:</b>					
Forwards	\$ 1.183	\$ 69,500	\$ 6,292	\$ –	\$ 6,292
Call options purchased	\$ 1.188	\$ 23,000	2,152	–	2,152
Put options sold	\$ 1.188	\$ 11,500	–	(94)	(94)
<b>Foreign exchange contracts classified at FVTPL<sup>1</sup>:</b>					
Call options purchased	\$ 1.081	\$ 64,000	12,191	–	12,191
Put options sold	\$ 1.081	\$ 128,000	–	(2)	(2)
			<u>\$ 20,635</u>	<u>\$ (96)</u>	<u>\$ 20,539</u>

<sup>1</sup> Held as economic hedges.

## 6 INVENTORIES

During the three and six months ended August 1, 2015, inventories recognized as cost of goods sold amounted to \$109,319 and \$189,245, respectively (\$103,305 and \$188,569 for the three and six months ended August 2, 2014). In addition, for the three and six months ended August 1, 2015, the Company recorded \$4,516 and \$6,226 (\$2,528 and \$3,972 for the three and six months ended August 2, 2014) of write-downs of inventories as a result of net realizable value being lower than cost which were recognized in cost of goods sold, and no inventory write-downs recognized in previous periods were reversed.

For the three and six months ended August 1, 2015, gains of \$3,019 and \$10,211, respectively, are included in cost of goods sold (\$1,105 and \$5,160 for the three and six months ended August 2, 2014, respectively) representing changes in fair value of derivatives not eligible for hedge accounting. Cost of goods sold for the three and six months ended August 2, 2014 were recast to include changes in fair value of derivatives not eligible for hedge accounting which were previously presented as part of finance income or finance costs.

## 7 TRADE AND OTHER PAYABLES

	AUGUST 1, 2015	AUGUST 2, 2014	JANUARY 31, 2015
Trade payables	\$ 55,258	\$ 46,051	\$ 49,577
Non-trade payables due to related parties	40	55	40
Other non-trade payables	11,688	9,864	9,502
Personnel liabilities	23,853	27,170	27,201
Payables relating to premises	11,834	14,402	14,576
Provision for sales returns	1,128	863	726
	<b>103,801</b>	<b>98,405</b>	<b>101,622</b>
Less non-current portion	9,060	10,855	9,903
	<b>\$ 94,741</b>	<b>\$ 87,550</b>	<b>\$ 91,719</b>

The non-current portion of trade and other payables, which is included in payables relating to premises, represents the portion of deferred rent to be amortized and other payables beyond the next twelve months.

## 8 DEFERRED REVENUE

	AUGUST 1, 2015	AUGUST 2, 2014	JANUARY 31, 2015
Loyalty points and awards granted under loyalty programs	\$ 9,518	\$ 8,776	\$ 8,735
Unredeemed gift cards	6,438	6,583	12,338
	<b>\$ 15,956</b>	<b>\$ 15,359</b>	<b>\$ 21,073</b>

## 9 SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

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

	FOR THE SIX MONTHS ENDED			
	AUGUST 1, 2015		AUGUST 2, 2014	
	NUMBER OF SHARES (IN 000'S)	CARRYING AMOUNT	NUMBER OF SHARES (IN 000'S)	CARRYING AMOUNT
<b>Common shares</b>				
Balance at beginning and end of the period	13,440	\$ 482	13,440	\$ 482
<b>Class A non-voting shares</b>				
Balance at beginning of the period	51,146	38,745	51,146	38,745
Shares issued pursuant to exercise of share options	–	2	–	–
Shares purchased under issuer bid	(626)	(415)	–	–
Balance at end of the period	50,520	38,332	51,146	38,745
Total share capital	63,960	\$ 38,814	64,586	\$ 39,227

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### AUTHORIZED SHARE CAPITAL

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

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

### ISSUANCE OF CLASS A NON-VOTING SHARES

During the six months ended August 1, 2015, a total of 200 Class A non-voting shares were issued as a result of the exercise of vested options arising from the Company's share option program (August 2, 2014 – nil). The amounts credited to share capital from the exercise of share options include a cash consideration of \$2, including an ascribed value from contributed surplus (August 2, 2014 – nil).

### PURCHASE OF SHARES FOR CANCELLATION

For the three and six months ended August 1, 2015, the Company purchased, under the normal course issuer bid approved in December 2014, 626,340 (August 2, 2014 – nil) Class A non-voting shares having a carrying value of \$415 (August 2, 2014 – nil) for a total cash consideration of \$4,306 (August 2, 2014 – nil). The excess of the purchase price over the carrying value of the shares in the amount of \$3,891 (August 2, 2014 – nil) was charged to retained earnings. For further information with respect to the normal course issuer bid refer to the Company's audited annual consolidated financial statements for the year ended January 31, 2015.

### ACCUMULATED OTHER COMPREHENSIVE INCOME ("AOCI")

AOCI is comprised of the following:

	MARKETABLE SECURITIES	CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	TOTAL AOCI
Balance at February 1, 2015	\$ 340	\$ 6,026	\$ (725)	\$ 5,641
Impact of adopting IFRS 9 (2014) (note 3a)	(340)	–	–	(340)
Net change in fair value of cash flow hedges (net of tax of \$1,597)	–	4,392	–	4,392
Transfer of realized gain on cash flow hedges to inventory (net of tax of \$274)	–	(753)	–	(753)
Change in foreign currency translation differences	–	–	(119)	(119)
Balance at August 1, 2015	\$ –	\$ 9,665	\$ (844)	\$ 8,821
Balance at February 2, 2014	\$ 7,327	\$ –	\$ 29	\$ 7,356
Net change in fair value of available-for-sale financial assets (net of tax of \$352)	2,306	–	–	2,306
Reclassification of realized loss on available-for-sale financial assets (net of tax of \$9)	52	–	–	52
Reclassification of impairment loss on available-for-sale financial assets to net earnings (net of tax of \$1)	9	–	–	9
Change in foreign currency translation differences	–	–	(151)	(151)
Balance at August 2, 2014	\$ 9,694	\$ –	\$ (122)	\$ 9,572

The change in the time value element of option contracts designated as cash flow hedges was not significant for the three and six months ended August 1, 2015.

### DIVIDENDS

The following dividends were declared and paid by the Company:

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	AUGUST 1, 2015	AUGUST 2, 2014	AUGUST 1, 2015	AUGUST 2, 2014
Common shares and Class A non-voting shares	\$ 3,198	\$ 3,230	\$ 6,427	\$ 6,459
Dividend per share	\$ 0.05	\$ 0.05	\$ 0.10	\$ 0.10

## 10 SHARE-BASED PAYMENTS

### A) DESCRIPTION OF THE SHARE-BASED PAYMENT ARRANGEMENTS

The Company has a share option plan that provides that up to 10% of the Class A non-voting shares outstanding, from time to time, may be issued pursuant to the exercise of options granted under the plan to key management and employees. The granting of options and the related vesting period, which is normally up to 5 years, are at the discretion of the Board of Directors and the options have a maximum term of 10 years. The exercise price payable for each Class A non-voting share covered by a share option is determined by the Board of Directors at the date of grant, but may not be less than the closing price of the Company's shares on the trading day immediately preceding the effective date of the grant.

### B) DISCLOSURE OF EQUITY-SETTLED SHARE OPTION PLAN

Changes in outstanding share options were as follows:

	FOR THE THREE MONTHS ENDED				FOR THE SIX MONTHS ENDED			
	AUGUST 1, 2015		AUGUST 2, 2014		AUGUST 1, 2015		AUGUST 2, 2014	
	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, at beginning of period	3,108	\$ 10.35	1,964	\$ 14.42	3,051	\$ 10.75	2,090	\$ 14.43
Granted	830	6.75	1,557	6.00	1,030	6.75	1,557	6.00
Exercised	—	—	—	—	—	6.00	—	—
Forfeited	(7)	6.00	(122)	14.29	(150)	13.60	(248)	14.40
Outstanding, at end of period	3,931	\$ 9.60	3,399	\$ 10.57	3,931	\$ 9.60	3,399	\$ 10.57
Options exercisable, at end of period	1,645	\$ 13.15	1,464	\$ 14.50	1,645	\$ 13.15	1,464	\$ 14.50

During the six months ended August 1, 2015, a total of 200 (August 2, 2014 – nil) Class A non-voting shares were issued as a result of the exercise of vested options arising from the Company's share option program. There were no share options exercised during the three months ended August 1, 2015 and August 2, 2014.

### C) Compensation cost related to the share option awards granted during the three months and six months ended August 1, 2015 and August 2, 2014 under the fair value based approach was calculated using the following assumptions:

	830,000 OPTIONS GRANTED JUNE 9, 2015	200,000 OPTIONS GRANTED APRIL 23, 2015	1,557,000 OPTIONS GRANTED JUNE 16, 2014
Expected option life	6.2 years	6.3 years	6.3 years
Risk-free interest rate	1.29%	0.99%	1.79%
Expected stock price volatility	29.74%	30.06%	32.38%
Average dividend yield	2.96%	2.95%	3.33%
Weighted average fair value of options granted	\$ 1.42	\$ 1.42	\$ 1.38
Share price at grant date	\$ 6.75	\$ 6.77	\$ 6.00

### D) EMPLOYEE EXPENSE

For the three and six months ended August 1, 2015, the Company recognized compensation costs of \$312 and \$450, respectively, relating to share-based payment arrangements (\$242 and \$315 for the three and six months ended August 2, 2014), with a corresponding credit to contributed surplus.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 11 INCOME TAX

The Company's effective tax rate for the three and six months ended August 1, 2015 was 141.97% and 16.10% respectively (19.71% and 21.86% for the three and six months ended August 2, 2014). In the interim periods, the income tax provision is based on an estimate of the earnings that will be generated in a full year adjusted for the impact of the fair value adjustment related to marketable securities. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods.

### 12 FINANCE INCOME AND FINANCE COSTS

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	AUGUST 1, 2015	AUGUST 2, 2014	AUGUST 1, 2015	AUGUST 2, 2014
Dividend income from marketable securities	\$ 577	\$ 630	\$ 1,286	\$ 1,297
Interest income	141	181	299	344
Foreign exchange gain	2,451	326	3,061	–
Finance income	3,169	1,137	4,646	1,641
Interest expense – mortgage	75	103	157	211
Foreign exchange loss	–	–	–	573
Net change in fair value of marketable securities	5,233	–	6,401	–
Impairment loss on available-for-sale financial assets	–	–	–	10
Realized loss on disposal of marketable securities	15	37	15	61
Finance costs	5,323	140	6,573	855
Net finance (costs) income recognized in net earnings	\$ (2,154)	\$ 997	\$ (1,927)	\$ 786

### 13 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on net loss for the three and six months ended August 1, 2015 of \$222 and \$7,893, respectively (net earnings of \$9,557 for the three months ended August 2, 2014 and net loss of \$3,858 for the six months ended August 2, 2014).

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

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	AUGUST 1, 2015	AUGUST 2, 2014	AUGUST 1, 2015	AUGUST 2, 2014
Weighted average number of shares per basic earnings per share calculations	64,324	64,586	64,455	64,586
Weighted average number of shares per diluted earnings per share calculations	64,324	64,586	64,455	64,586

For the three and six months ended August 1, 2015, a total of 3,664,000 and 3,398,000, respectively, share options were excluded from the calculation of diluted earnings per share as these options were deemed to be anti-dilutive, because the exercise prices were greater than the average market price of the shares during the period (3,399,000 for the three and six months ended August 2, 2014).

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

**14 SUPPLEMENTARY CASH FLOW AND OTHER INFORMATION**

	AUGUST 1, 2015	AUGUST 2, 2014	JANUARY 31, 2015
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	\$ 591	\$ 1,754	\$ 3,645

Included in depreciation, amortization and impairment losses are write-offs of property and equipment related to store closures and asset impairment charges relating to underperforming stores of \$2,107 and \$3,577 for the three and six months ended August 1, 2015 respectively (\$892 and \$2,459 for three and six months ended August 2, 2014). The impairment related to the property and equipment is due to the reduction in profitability at individual store locations (cash-generating units "CGUs"). In addition, during the three and six months ended August 1, 2015, \$373 and \$838, respectively of asset impairment charges were reversed following an improvement in the profitability of certain CGUs (nil for the three and six months ended August 2, 2014). Net impairment losses have been recorded in selling and distribution expenses.

**15 FINANCIAL RISK MANAGEMENT**

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the six months ended August 1, 2015 from those described in the Company's audited annual consolidated financial statements for the year ended January 31, 2015.

**REITMANS** offers a unique combination of superior fit, fashion, quality and value. With **333 STORES** across Canada averaging 4,600 sq. ft., Reitmans is the preferred destination for women looking to update their wardrobe with the latest styles and colours for an affordable price. While Reitmans enjoys a strong reputation for service and benefits from a broad and loyal customer base, it will continue to strive to create an engaging customer experience by being there for her whenever she chooses to shop. Reitmans' fashions can also be purchased online at [reitmans.com](http://reitmans.com).

Canadian leader of plus-size apparel, **PENNINGTONS** offers unparalleled value to our customers by providing fit expertise, quality and a unique inspiring shopping experience. Penningtons is the "Art of Affordable Fashion!" The plus-size fashion destination for sizes 14–32, Penningtons operates **135 STORES** across Canada averaging 6,000 sq. ft. and is available online at [penningtons.com](http://penningtons.com).

**ADDITION ELLE** is Canada's leading fashion destination for plus-size women. Addition Elle's vision of "Fashion Democracy" delivers the latest trends in updated fashion essentials in an inspiring shopping environment, offering casual daywear, dresses, contemporary career, sexy intimates, accessories, footwear, high performance activewear and a large assortment of premium denim labels. Addition Elle operates **107 STORES** averaging 6,000 sq. ft. in major malls and power centres nationwide and an e-commerce site at [additionelle.com](http://additionelle.com).

**RW & CO.** is an aspirational lifestyle brand which caters to men and women with an urban mindset. Whether for work or for weekend, RW & CO. offers fashion that blends the latest trends with style, quality and a unique attention to detail. RW & CO. operates **80 STORES** averaging 4,500 sq. ft. in premium locations in major shopping malls across Canada, as well as an e-commerce site at [rw-co.com](http://rw-co.com).

**THYME MATERNITY**, Canada's leading fashion brand for modern moms-to-be, offers current styles for every aspect of life, from casual to work, including a complete line of nursing fashion and accessories. Thyme brings future moms valuable advice, fashion tips and product knowledge to help them on their incredible journey during and after pregnancy. Thyme operates **69 STORES** averaging 2,300 sq. ft. in major malls and power centres nationwide, as well as 21 Thyme shop-in-shops in select Babies"R"Us locations in Canada. Thyme Maternity fashions can also be purchased online at [thymematernity.com](http://thymematernity.com).

With **70 STORES**, averaging 3,400 sq. ft., **SMART SET** is a style destination offering wear-to-work separates, denim, essentials and accessories. Smart Set offers the latest styles in women's fashions to mix, match and innovate.



**STORES  
ACROSS  
CANADA**

	REITMANS	PENNINGTONS	ADDITIONELLE	RW & CO.	THYME	SMART SET	TOTAL STORES
NEWFOUNDLAND	14	3	2	1	-	-	20
PRINCE EDWARD ISLAND	3	1	-	-	-	2	6
NOVA SCOTIA	19	6	2	1	1	1	30
NEW BRUNSWICK	13	4	3	3	1	2	26
QUÉBEC	81	24	30	19	22	27	203
ONTARIO	105	50	40	29	26	26	276
MANITOBA	12	5	3	3	2	2	27
SASKATCHEWAN	11	6	3	2	2	1	25
ALBERTA	38	19	18	11	10	4	100
BRITISH COLUMBIA	35	17	6	11	5	5	79
NORTHWEST TERRITORIES	1	-	-	-	-	-	1
YUKON	1	-	-	-	-	-	1
	<b>333</b>	<b>135</b>	<b>107</b>	<b>80</b>	<b>69</b>	<b>70</b>	<b>794</b>



**Reitmans**  
(CANADA) LIMITED

**CORPORATE  
INFORMATION**

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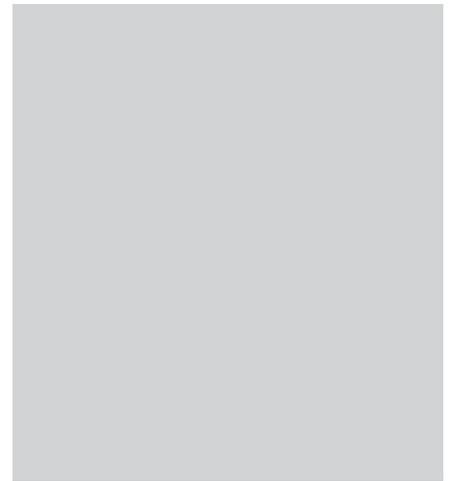
**TRANSFER AGENT AND REGISTRAR**

Computershare Investor Services Inc.  
Montreal, Toronto, Calgary, Vancouver

**STOCK SYMBOLS**

THE TORONTO STOCK EXCHANGE  
Common RET  
Class A non-voting RET.A

Une version française de ce rapport peut être obtenue en écrivant au secrétaire de REITMANS (CANADA) LIMITÉE 250, RUE SAUVÉ OUEST MONTRÉAL, QUÉBEC H3L 1Z2



REITMANS  
PENNINGTONS  
ADDITION ELLE  
RW & CO.  
THYME  
SMART SET



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