

INTERIM REPORT



REITMANS

(CANADA) LIMITED



FOR THE NINE MONTHS ENDED  
OCTOBER 28, 2017



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

**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.**

Sales for the three months ended October 28, 2017 were \$242.4 million as compared with \$245.6 million for last year, a decrease of 1.3%, with a net reduction of 42 stores. Same store sales<sup>1</sup> increased 0.8%, with store sales decreasing 1.9% and e-commerce sales increasing 29.7%.

Gross profit for the three months ended October 28, 2017 decreased by \$4.0 million or 2.9% to \$135.9 million as compared with \$139.9 million for last year. Gross margin was 56.1% for the three months ended October 28, 2017 as compared to 57.0% for last year impacted by higher promotional activity as unseasonably warm fall weather contributed to lower customer traffic. This was partially offset by a positive foreign exchange impact of approximately \$2.1 million on U.S. dollar denominated purchases for the three months ended October 28, 2017 and continued focus on cost efficiencies realized from global sourcing activities.

Results from operating activities for the three months ended October 28, 2017 was a loss of \$19.0 million as compared to earnings of \$6.5 million for last year, a decrease of \$25.5 million. As a result of weakness in recent operating performance at Addition Elle, an impairment test was performed as at October 28, 2017. Results from operating activities for the three months ended October 28, 2017 include a non-cash goodwill impairment charge of \$26.3 million related to the Addition Elle banner. Changes have been made to the leadership team and the Company is optimistic that it has a strong team in place to drive growth and execute on its strategy. The Company continues to believe that Addition Elle is a premium brand with excellent digital capabilities, a strong online presence with the plus-size consumer, highly recognizable celebrity collaborations and strategies in place with the potential to generate long-term profitable growth for the Company.

Results from operating activities excluding the impairment of goodwill for the three months ended October 28, 2017 were \$7.3 million as compared to \$6.5 million for last year, an increase of \$0.8 million.

Net loss for the three months ended October 28, 2017 was \$16.8 million (27 cents loss per share) as compared with net earnings of \$7.6 million (12 cents earnings per share) for last year. Excluding the impairment of goodwill, net earnings increased 25.0% to \$9.5 million (15 cents earnings per share) for the three months ended October 28, 2017 as compared with net earnings of \$7.6 million (12 cents earnings per share) for last year, an increase of \$1.9 million. Adjusted EBITDA<sup>1</sup> for the three months ended October 28, 2017 was \$18.9 million, comparable with \$18.4 million for last year. During the quarter, the Company opened 3 new stores and closed 15.

Sales for the nine months ended October 28, 2017 were \$700.6 million as compared with \$703.5 million for last year, a decrease of 0.4%, with a net reduction of 42 stores. Same store sales<sup>1</sup> increased 2.7%, with store sales decreasing 0.5% and e-commerce sales increasing 40.4%. Gross profit for the nine months ended October 28, 2017 decreased by \$8.8 million or 2.2% to \$387.8 million as compared with \$396.6 million for last year.

Gross margin was 55.4% for the nine months ended October 28, 2017 as compared to 56.4% for last year driven primarily by the adverse foreign exchange impact of approximately \$9.2 million on U.S. dollar denominated purchases. The Company continues to drive cost efficiencies through its global sourcing activities thereby helping to mitigate the negative impact of foreign exchange.

Results from operating activities for the nine months ended October 28, 2017 was a loss of \$20.5 million as compared to earnings of \$6.5 million for last year, a decrease of \$27.0 million due to an impairment of goodwill charge of \$26.3 million. Results from operating activities excluding the impairment of goodwill for the nine months ended October 28, 2017 were \$5.8 million as compared to \$6.5 million for last year, a decrease of \$0.7 million.

Net loss was \$13.7 million for the nine months ended October 28, 2017 (22 cents loss per share) as compared with net earnings of \$10.6 million (17 cents earnings per share) for last year. Excluding the impairment of goodwill, net earnings increased 18.9% to \$12.6 million (20 cents earnings per share) for the nine months ended October 28, 2017 as compared with net earnings of \$10.6 million (17 cents earnings per share) for last year, an increase of \$2.0 million. Adjusted EBITDA<sup>1</sup> for the nine months ended October 28, 2017 was \$38.7 million comparable with \$37.2 million for last year. During the nine months ended October 28, 2017, the Company opened 6 new stores and closed 31.

The Company operates 652 stores consisting of 276 Reitmans, 122 Penningtons, 93 Addition Elle, 84 RW&CO., 61 Thyme Maternity and 16 Hyba. The Company plans to open 13 new stores, close 47 stores and remodel 26 stores this year.

Sales for the month of November (the four weeks ended November 25, 2017) increased 0.7%. Same store sales<sup>1</sup> increased 2.8% with stores decreasing 0.8% and e-commerce sales increasing 31.4%.

At the Board of Directors meeting held on November 30, 2017, 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 January 25, 2018 to shareholders of record on January 15, 2018.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman  
Chairman and Chief Executive Officer

Montreal, November 30, 2017

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



# MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED OCTOBER 28, 2017

The following Management's Discussion and Analysis ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the three and nine months ended October 28, 2017 and the audited annual consolidated financial statements for the fiscal year ended January 28, 2017 and the notes thereto which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com). This MD&A is dated November 30, 2017.

All financial information contained in this MD&A and Reitmans' unaudited condensed consolidated interim financial statements has been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), as issued by the International Accounting Standards Board ("IASB"). All monetary amounts shown in the tables in this MD&A are in millions of Canadian dollars unless otherwise indicated, except per share and strike price amounts. The unaudited condensed consolidated interim financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on November 30, 2017.

Unless otherwise indicated, all comparisons of results for the three months ended October 28, 2017 ("third quarter of fiscal 2018") are against results for the three months ended October 29, 2016 ("third quarter of fiscal 2017") and all comparisons of results for the nine months ended October 28, 2017 ("year to date fiscal 2018") are against results for the nine months ended October 29, 2016 ("year to date fiscal 2017").

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. 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. This MD&A contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the Company's 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. These specific forward-looking statements are contained throughout this MD&A including those listed in the "Operating and Financial Risk Management" section of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

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

- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates, interest rates, currency exchange rates or derivative prices;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- the changing consumer preferences toward e-commerce, online retailing and the introduction of new technologies;
- seasonality and weather;
- the inability of the Company's information technology ("IT") infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cyber security or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrinkage;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies associated with the Company's major initiatives, including those from restructuring;
- changes in the Company's income, capital, property and other tax and regulatory liabilities, including changes in tax laws, regulations or future assessments.

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

## **NON-GAAP FINANCIAL MEASURES**

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

In addition to discussing earnings in accordance with IFRS, this MD&A provides adjusted earnings before interest, taxes, depreciation and amortization ("adjusted EBITDA") as a non-GAAP financial measure. Adjusted EBITDA is defined as net earnings before income tax expense/recovery, dividend income, interest income, net change in fair value of marketable securities, interest expense, impairment of goodwill, depreciation, amortization and net impairment charges. 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 income, interest income and expense and the net change in fair value of marketable securities eliminates the impact on earnings derived from non-operational activities. The exclusion of impairment of goodwill, 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. The measure does not have any standardized meaning under IFRS. Although depreciation, amortization and impairment charges are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, as such, adjusted EBITDA does not reflect any cash requirements for these replacements. Adjusted EBITDA should not be considered either as discretionary cash available to invest in the growth of the business or as a measure of cash that will be available to meet the Company's obligations. Other companies may calculate adjusted EBITDA differently. From time to time, the Company may exclude additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring. Adjusted EBITDA should not be used in substitute for measures of performance prepared in accordance with IFRS or as an alternative to net earnings, net cash provided by operating, investing or financing activities or any other financial statement data presented as indicators of financial performance or liquidity, each as presented in accordance with IFRS. Although adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, it has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under IFRS.

The Company considers results from operating activities a useful measure of the Company's performance from its retail operations. The Company has also determined that a useful measure would be results from operating activities before impairment of goodwill excluding the impact of impairment of goodwill which is a non-cash item. Additionally, earnings per share excluding impairment of goodwill both on a basic and diluted basis have been presented which removes the impact of impairment of goodwill on net earnings used for calculation purposes. Both of these supplementary measures are considered useful information and should not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS.

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. Same store sales exclude sales from wholesale accounts. 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 online sales and considers it useful in helping to determine what portion of new sales has come from sales growth and what portion can be attributed to the opening of new stores. Same store sales is a measure widely used amongst retailers and is considered useful information for both investors and analysts. Same store sales should not be considered in isolation or used in substitute for measures of performance prepared in accordance with IFRS.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table reconciles net (loss) earnings to adjusted EBITDA:

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	OCTOBER 28, 2017	OCTOBER 29, 2016	OCTOBER 28, 2017	OCTOBER 29, 2016
<b>Net (loss) earnings</b>	<b>\$ (16.8)</b>	<b>\$ 7.6</b>	<b>\$ (13.7)</b>	<b>\$ 10.6</b>
Depreciation, amortization and net impairment losses	10.6	11.2	32.3	32.3
Dividend income	(0.6)	(0.6)	(1.8)	(1.9)
Interest income	(0.3)	(0.2)	(0.7)	(0.5)
Impairment of goodwill	26.3	—	26.3	—
Net change in fair value of marketable securities	(2.1)	(0.5)	(5.3)	(4.1)
Interest expense	—	—	—	0.1
Income tax expense	1.8	0.9	1.6	0.7
<b>Adjusted EBITDA</b>	<b>\$ 18.9</b>	<b>\$ 18.4</b>	<b>\$ 38.7</b>	<b>\$ 37.2</b>
<b>Adjusted EBITDA as % of sales</b>	<b>7.8%</b>	<b>7.5%</b>	<b>5.5%</b>	<b>5.3%</b>

### OVERVIEW

The Company has a single reportable segment that derives its revenue primarily 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 while also offering e-commerce website shopping for all of its banners. The online channels provide customers convenience, selection and ease of purchase, while enhancing customer loyalty and continuing to build the brands. Additionally, the Company has wholesale activity for selected banners, primarily in the U.S. The Company currently operates under the following banners:

The Reitmans banner, operating 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.

*Reitmans*

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 stores in power centres across Canada averaging 6,000 sq. ft.

**Penningtons**

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 stores averaging 6,000 sq. ft. in major malls and power centres nationwide.

**ADDITION ELLE**

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

**RW&CO.**

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 stores averaging 2,300 sq. ft. in major malls and power centres across Canada.

*Thyme*

Hyba operates stores averaging 3,000 sq. ft. offering affordable, on-trend activewear and yoga clothes for exercising or sports in sizes XS to 2X. The Hyba brand is also available at Reitmans store locations across Canada.

**hyba**

**RETAIL BANNERS**

	NUMBER OF STORES AT JANUARY 28, 2017	Q1 OPENINGS	Q1 CLOSINGS	Q2 OPENINGS	Q2 CLOSINGS	Q3 OPENINGS	Q3 CLOSINGS	NUMBER OF STORES AT OCTOBER 28, 2017	NUMBER OF STORES AT OCTOBER 29, 2016
Reitmans	288	—	(5)	—	(3)	—	(4)	276	302
Penningtons	127	—	(1)	—	(1)	—	(3)	122	127
Addition Elle	96	—	—	—	(1)	1	(3)	93	98
RW & CO.	85	—	(1)	1	—	—	(1)	84	84
Thyme Maternity	62	—	(1)	—	(1)	2	(1)	61	64
Hyba	19	1	(1)	1	(1)	—	(3)	16	19
<b>Total</b>	<b>677</b>	<b>1</b>	<b>(9)</b>	<b>2</b>	<b>(7)</b>	<b>3</b>	<b>(15)</b>	<b>652</b>	<b>694</b>

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, which include:

INITIATIVES	STATUS
Consumer online purchasing continues to be a major focus. The Company is committed to deliver best-in-class digital customer experiences across its portfolio of e-commerce sites. Strategically, the Company is adopting a digital-first approach, which facilitates rapid and sustainable growth in the digital and omnichannel retail environment. The Company is investing aggressively to optimize and modernize all customer-facing processes and platforms.	The Company continues to enhance its core e-commerce platform, evolve its customer relationship management and marketing automation infrastructure and optimize its customer data management capabilities. The Company has invested in both technology and personnel to strengthen its capabilities in the use of predictive analytics and to enhance the customers' mobile e-commerce experience. Additionally, the Company has revisited its network of media agency relationships to drive maximum return on investment from digital media and is evolving its existing distribution/shipping model to better serve customers through expanded delivery options.
The Company plans to expand the Hyba banner in select markets in Canada.	The Company has identified new locations and it will be opportunistic in seeking optimal space in key locations. Existing stores, converted from the closure of the Smart Set banner, continue to be right-sized to improve efficiencies. Strategies are under review to further develop and capitalize on the Hyba brand.
The Company continues to expand outside of Canada primarily through a wholesale and digital strategy in the U.S.	The Company has invested in the wholesale channel and has focused its efforts with its plus-size offerings targeting wholesale customers predominantly in the U.S. The Company launched a localized U.S. website in the third quarter of fiscal 2018 and continues to work on developing brand recognition in the U.S. market to drive online sales growth.
A significant investment in the Company's distribution and logistics system was undertaken in order to accommodate the growth of e-commerce and to provide for improved in-store fulfillment.	An initial phase for redesign of the Company's distribution centre facility is complete and functional. Further design changes and operational efficiencies continue to be identified as the Company invests in technology, process improvements and training to support the improved logistics and distribution systems.

**OPERATING RESULTS FOR THE THIRD QUARTER OF FISCAL 2018  
COMPARED TO THE THIRD QUARTER OF FISCAL 2017**

	THIRD QUARTER OF FISCAL 2018	THIRD QUARTER OF FISCAL 2017	\$ CHANGE	% CHANGE
Sales	\$ 242.4	\$ 245.6	\$ (3.2)	(1.3) %
Cost of goods sold	106.5	105.7	0.8	0.8 %
Gross profit	135.9	139.9	(4.0)	(2.9) %
Selling, distribution and administrative expenses	128.6	133.4	(4.8)	(3.6) %
Results from operating activities before impairment of goodwill	7.3	6.5	0.8	12.3 %
Impairment of goodwill	26.3	—	26.3	—
Results from operating activities	(19.0)	6.5	(25.5)	(392.3) %
Net finance income	4.0	2.0	2.0	100.0 %
(Loss) earnings before income taxes	(15.0)	8.5	(23.5)	(276.5) %
Income tax expense	1.8	0.9	0.9	100.0 %
Net (loss) earnings	\$ (16.8)	\$ 7.6	\$ (24.4)	(321.1) %
Adjusted EBITDA	\$ 18.9	\$ 18.4	\$ 0.5	2.7 %
(Loss) earnings per share:				
Basic	\$ (0.27)	\$ 0.12	\$ (0.39)	(325.0) %
Diluted	(0.27)	0.12	(0.39)	(325.0) %
Earnings per share excluding impairment of goodwill:				
Basic	\$ 0.15	\$ 0.12	\$ 0.03	25.0 %
Diluted	0.15	0.12	0.03	25.0 %

**SALES**

Sales decreased by \$3.2 million or 1.3% to \$242.4 million for the third quarter of fiscal 2018, with a net reduction of 42 stores. The Company continues its plan of adapting to the new retail environment by reducing its store presence in select markets while enhancing its e-commerce capabilities. Same store sales, for stores and e-commerce combined, increased 0.8%, marking the fourteenth consecutive quarter of positive same store sales. This improvement was driven by increased e-commerce sales of 29.7%, as the Company continues to experience strong growth in its e-commerce channel, while store sales decreased by 1.9%.

**GROSS PROFIT**

Gross profit as a percentage of sales for the third quarter of fiscal 2018 decreased to 56.1% from 57.0% for the third quarter of fiscal 2017. Gross margins for the third quarter of fiscal 2018 were impacted by higher promotional activity as unseasonably warm fall weather contributed to lower customer traffic. This was partially offset by a positive foreign exchange impact of approximately \$2.1 million on U.S. dollar denominated purchases in the third quarter of fiscal 2018 and continued focus on cost efficiencies realized from global sourcing activities.

**SELLING, DISTRIBUTION AND ADMINISTRATIVE EXPENSES**

Total selling, distribution and administrative expenses were \$128.6 million for the third quarter of fiscal 2018, compared with \$133.4 million for the third quarter of fiscal 2017. This decrease is primarily attributable to a reduction in store operating costs due to fewer stores, a lower employee performance incentive plan expense that is based upon the attainment of operating performance targets and lower depreciation, amortization and net impairment losses.

**IMPAIRMENT OF GOODWILL**

Following a review of the profitability of the Addition Elle banner the Company's impairment testing concluded that the carrying value of goodwill exceeded the recoverable amount (refer to Note 6 of the October 28, 2017 unaudited condensed consolidated interim financial statements). As a result, the Company recorded a goodwill impairment loss of \$26.3 million in the third quarter of fiscal 2018.



## NET FINANCE INCOME

Net finance income was \$4.0 million for the third quarter of fiscal 2018 as compared to \$2.0 million for the third quarter of fiscal 2017. This increase is primarily attributable to the following:

- a \$2.1 million increase in the fair value of marketable securities for the third quarter of fiscal 2018 compared to a \$0.5 million increase for the third quarter of fiscal 2017;
- a foreign exchange gain of \$1.0 million in the third quarter of fiscal 2018 compared to a gain of \$0.7 million in the third quarter of fiscal 2017, largely attributable to the foreign exchange impact on U.S. denominated monetary assets and liabilities.

## INCOME TAXES

The income tax expense for the third quarter of fiscal 2018 was impacted primarily by a non-deductible goodwill impairment of \$26.3 million, a \$2.1 million increase in the fair value of marketable securities for which no deferred tax asset has been recognized and tax exempt dividend income relative to the Company's active business income. The Company's effective tax rates include the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

## NET LOSS

Net loss for the third quarter of fiscal 2018 was \$16.8 million (\$0.27 basic and diluted loss per share) as compared with net earnings of \$7.6 million (\$0.12 basic and diluted earnings per share) for the third quarter of fiscal 2017.

Excluding the impact of the impairment of goodwill, net earnings for the third quarter of fiscal 2018 increased 25.0% to \$9.5 million (\$0.15 basic and diluted earnings per share) as compared with net earnings of \$7.6 million (\$0.12 basic and diluted earnings per share) for the third quarter of fiscal 2017.

## ADJUSTED EBITDA

Adjusted EBITDA for the third quarter of fiscal 2018 was \$18.9 million, comparable with \$18.4 million for the third quarter of fiscal 2017.

### OPERATING RESULTS FOR THE YEAR TO DATE FISCAL 2018 COMPARED TO THE YEAR TO DATE FISCAL 2017

	YEAR TO DATE FISCAL 2018	YEAR TO DATE FISCAL 2017	\$ CHANGE	% CHANGE
Sales	\$ 700.6	\$ 703.5	\$ (2.9)	(0.4) %
Cost of goods sold	312.8	306.9	5.9	1.9 %
Gross profit	387.8	396.6	(8.8)	(2.2) %
Selling, distribution and administrative expenses	382.0	390.1	(8.1)	(2.1) %
Results from operating activities before impairment of goodwill	5.8	6.5	(0.7)	(10.8) %
Impairment of goodwill	26.3	—	26.3	—
Results from operating activities	(20.5)	6.5	(27.0)	(415.4) %
Net finance income	8.4	4.8	3.6	75.0 %
(Loss) earnings before income taxes	(12.1)	11.3	(23.4)	(207.1) %
Income tax expense	1.6	0.7	0.9	128.6 %
Net (loss) earnings	\$ (13.7)	\$ 10.6	\$ (24.3)	(229.2) %
Adjusted EBITDA	\$ 38.7	\$ 37.2	\$ 1.5	4.0 %
(Loss) earnings per share:				
Basic	\$ (0.22)	\$ 0.17	\$ (0.39)	(229.4) %
Diluted	(0.22)	0.17	(0.39)	(229.4) %
Earnings per share excluding impairment of goodwill:				
Basic	\$ 0.20	\$ 0.17	\$ 0.03	17.6 %
Diluted	0.20	0.17	0.03	17.6 %

### SALES

Sales decreased by \$2.9 million or 0.4% to \$700.6 million for the year to date fiscal 2018, with a net reduction of 42 stores. The Company continues to execute against a plan adapting to the new retail environment by reducing its store presence in select markets while enhancing its e-commerce capabilities. Same store sales, for stores and e-commerce combined, increased 2.7%. This improvement was driven by increased e-commerce sales of 40.4%, as the Company continues to experience strong growth in its e-commerce channel, while stores sales decreased by 0.5%.

### GROSS PROFIT

Gross profit as a percentage of sales for the year to date fiscal 2018 decreased to 55.4% from 56.4% for the year to date fiscal 2017 driven primarily by the adverse foreign exchange impact of approximately \$9.2 million on U.S. dollar denominated purchases. The Company continues to drive cost efficiencies through its global sourcing activities thereby helping to mitigate the negative impact of foreign exchange.

### SELLING, DISTRIBUTION AND ADMINISTRATIVE EXPENSES

Total selling, distribution and administrative expenses were \$382.0 million for the year to date fiscal 2018, compared with \$390.1 million for the year to date fiscal 2017, primarily attributable to a reduction in store operating costs due to fewer stores and a lower employee performance incentive plan expense that is based upon the attainment of operating performance targets.

### IMPAIRMENT OF GOODWILL

Following a review of the profitability of the Addition Elle banner the Company's impairment testing concluded that the carrying value of goodwill exceeded the recoverable amount (refer to Note 6 of the October 28, 2017 unaudited condensed consolidated interim financial statements). As a result, the Company recorded a goodwill impairment loss of \$26.3 million in the year to date fiscal 2018.

### NET FINANCE INCOME

Net finance income was \$8.4 million for the year to date fiscal 2018 as compared to net finance income of \$4.8 million for the year to date fiscal 2017. This increase is primarily attributable to the following:

- a \$0.6 million foreign exchange gain in the year to date fiscal 2018 compared to a \$1.5 million loss in the year to date fiscal 2017, largely attributable to the foreign exchange impact on U.S. denominated monetary assets and liabilities;
- a \$5.3 million increase in the fair value of marketable securities for the year to date fiscal 2018 compared to a \$4.1 million increase for the year to date fiscal 2017.

### INCOME TAXES

The income tax expense for the year to date fiscal 2018 was impacted primarily by a non-deductible goodwill impairment of \$26.3 million, a \$5.3 million increase in the fair value of marketable securities for which no deferred tax asset has been recognized and tax exempt dividend income relative to the Company's active business income. The Company's effective tax rates include the impact of changes in substantively enacted tax rates in various tax jurisdictions in Canada.

### NET LOSS

Net loss for the year to date fiscal 2018 was \$13.7 million (\$0.22 basic and diluted loss per share) as compared with net earnings of \$10.6 million (\$0.17 basic and diluted earnings per share) for the year to date fiscal 2017.

Excluding the impact of the impairment of goodwill, net earnings for the year to date fiscal 2018 increased 18.9% to \$12.6 million (\$0.20 basic and diluted earnings per share) as compared with net earnings of \$10.6 million (\$0.17 basic and diluted earnings per share) for the year to date fiscal 2017.

### ADJUSTED EBITDA

Adjusted EBITDA for the year to date fiscal 2018 was \$38.7 million, comparable with \$37.2 million for the year to date fiscal 2017.

## FOREIGN EXCHANGE CONTRACTS

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. The Company's policy is to satisfy at least 80% of projected U.S. dollar denominated merchandise purchases in any given fiscal year by way of foreign exchange forward hedge contracts, with any additional requirements met through spot U.S. dollar purchases.

Details of the foreign currency contracts outstanding as at October 28, 2017 are as follows:

	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Foreign exchange forward contracts	\$ 1.303	\$ 199.5	\$ 1.6	\$ (5.5)	\$ (3.9)

Details of the foreign currency contracts outstanding as at October 29, 2016 are as follows:

	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Foreign exchange forward contracts	\$ 1.340	\$ 166.5	\$ 3.3	\$ (3.7)	\$ (0.4)

Details of the foreign currency contracts outstanding as at January 28, 2017 are as follows:

	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Foreign exchange forward contracts	\$ 1.319	\$ 197.0	\$ 1.4	\$ (3.2)	\$ (1.8)

## SUMMARY OF QUARTERLY RESULTS

Due to seasonality and the timing of holidays, the results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. The table below presents selected consolidated financial data for the eight most recently completed quarters. All references to "2018" are to the Company's fiscal year ending February 3, 2018, "2017" are to the Company's fiscal year ended January 28, 2017 and "2016" are to the fiscal year ended January 30, 2016.

	THIRD QUARTER		SECOND QUARTER		FIRST QUARTER		FOURTH QUARTER	
	2018 <sup>1</sup>	2017	2018	2017	2017	2016	2017	2016 <sup>2</sup>
Sales	\$ 242.4	\$ 245.6	\$ 251.1	\$ 254.4	\$ 207.1	\$ 203.5	\$ 248.4	\$ 242.2
Net (loss) earnings	(16.8)	7.6	9.7	9.0	(6.6)	(6.0)	0.3	(16.5)
(Loss) earnings per share								
Basic	\$ (0.27)	\$ 0.12	\$ 0.15	\$ 0.14	\$ (0.10)	\$ (0.09)	\$ 0.00	\$ (0.26)
Diluted	(0.27)	0.12	0.15	0.14	(0.10)	(0.09)	0.00	(0.26)
Net earnings (loss) before impairment of goodwill	\$ 9.5	\$ 7.6	\$ 9.7	\$ 9.0	\$ (6.6)	\$ (6.0)	\$ 0.3	\$ (12.3)
Earnings (loss) per share excluding impairment of goodwill								
Basic	\$ 0.15	\$ 0.12	\$ 0.15	\$ 0.14	\$ (0.10)	\$ (0.09)	\$ 0.00	\$ (0.19)
Diluted	0.15	0.12	0.15	0.14	(0.10)	(0.09)	0.00	(0.19)

<sup>1</sup> Includes the impact of an impairment of goodwill of \$26.3 million related to the Addition Elle banner.

<sup>2</sup> Includes the impact of an impairment of goodwill of \$4.2 million related to the Thyme Maternity banner.

In addition to other factors, fluctuations in the above-noted quarterly financial information reflect the impact on net earnings and earnings per share of the fluctuation of the Canadian dollar vis-à-vis the U.S. dollar along with the change in the fair value of marketable securities.

**BALANCE SHEET**

Selected line items from the Company's balance sheets as at October 28, 2017 and January 28, 2017 are presented below:

	OCTOBER 28, 2017	JANUARY 28, 2017	\$ CHANGE	% CHANGE
Cash and cash equivalents	\$ 119.1	\$ 120.3	\$ (1.2)	(1.0) %
Marketable securities	60.0	54.8	5.2	9.5 %
Trade and other receivables	7.0	4.3	2.7	62.8 %
Income taxes recoverable	1.3	3.5	(2.2)	(62.9) %
Inventories	146.7	146.1	0.6	0.4 %
Property and equipment & intangible assets	132.5	147.2	(14.7)	(10.0) %
Goodwill	11.9	38.2	(26.3)	(68.8) %
Deferred income taxes	26.3	25.9	0.4	1.5 %
Trade and other payables (current and long-term)	119.8	121.4	(1.6)	(1.3) %
Net derivative financial liability	3.9	1.8	2.1	116.7 %
Deferred revenue	13.9	21.5	(7.6)	(35.3) %

Changes in selected line items from October 28, 2017 compared to January 28, 2017 were primarily due to the following:

- cash and cash equivalents decreased primarily due to investments in property and equipment and dividend payments which were mainly offset by cash generated from operating activities in the year to date fiscal 2018;
- marketable securities increased due to the net change in their fair value in the year to date fiscal 2018;
- trade and other receivables consist primarily of credit card sales from the last few days of the quarter, wholesale account receivables and government tax incentives. The increase is primarily due to higher credit card receivables due to timing of the quarter end, higher wholesale account receivables as a result of wholesale growth and an outstanding government incentive program receivable;
- income taxes recoverable consist of tax refunds relating to prior years, net of current year tax liabilities;
- inventories include the normal build-up of merchandise for the holiday selling season whereas January inventories largely comprise early receipts of spring merchandise. A reduction in the number of stores contributed to lower inventories which was offset by an increase in the amount of merchandise needed to support significant growth in the e-commerce channel;
- the decrease in property and equipment and intangible assets reflects the reduction in the number of stores and a focus on managing capital investments;
- the reduction of goodwill is attributable to the recognition of an impairment of goodwill charge related to the Addition Elle banner;
- deferred income taxes were higher primarily due to deductible temporary timing differences arising on foreign exchange forward contracts;
- trade and other payables were slightly lower in part due to a reduction in the employee performance incentive plan liability partially offset by an increase in the provision for estimated sales returns. The Company's trade and other payables consist largely of trade payables, personnel liabilities, payables relating to premises and sales tax liabilities;
- the change in the net derivative position is attributable to the impact of mark-to-market adjustments on foreign exchange forward contracts;
- deferred revenue decreased due to the timing of gift card redemptions and loyalty reward program incentives. 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 28, 2017 (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 nine months ended October 28, 2017.

**LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES**

The Company primarily uses funds for working capital requirements, capital expenditure, and payment of dividends. Shareholders' equity as at October 28, 2017 amounted to \$349.3 million or \$5.52 per share (October 29, 2016 – \$376.6 million or \$5.95 per share; January 28, 2017 – \$373.5 million or \$5.90 per share). The Company continues to be in a strong financial position. The Company's principal sources of liquidity are its cash and cash equivalents and investments in marketable securities of \$179.1 million as at October 28, 2017 (October 29, 2016 – \$151.1 million; January 28, 2017 – \$175.1 million). Cash is held in interest bearing accounts, and when deemed appropriate, in short-term investments with major Canadian financial institutions. The Company closely monitors its risk with respect to short-term cash investments.

The Company has unsecured operating lines of credit available with Canadian chartered banks in an amount of \$75.0 million or its U.S. dollar equivalent. As at October 28, 2017, \$4.1 million (October 29, 2016 – \$10.4 million; January 28, 2017 – \$9.7 million) of the operating lines of credit were committed for documentary and standby letters of credit.

The Company purchases insurance coverage from financially stable third-party insurance companies. The Company maintains comprehensive internal security and loss prevention programs aimed at mitigating the financial impact of theft.

The Company continued repayment on its long-term debt, relating to the mortgage on the distribution centre, paying down \$0.5 million in the third quarter of fiscal 2018. Effective as of November 6, 2017 the Company had fully repaid all its long-term debt. The Company paid \$0.05 dividends per share in third quarter of fiscal 2018 totalling \$3.2 million, which was the same as in the third quarter of fiscal 2017. 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.

In the third quarter of fiscal 2018, the Company invested \$6.8 million in capital expenditures, on a cash basis, primarily on new and renovated stores. In fiscal 2018, the Company expects to invest approximately \$31.0 million in capital expenditures. These expenditures, together with the payment of dividends are expected to be funded by the Company's existing financial resources and funds derived from its operations.

The Company expects that cash and cash equivalents, investments in marketable securities, future operating cash flows and amounts available to be drawn under lines of credit will enable the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital and financial obligations.

**FINANCIAL COMMITMENTS**

There have been no material changes in the Company's financial commitments that are outside of the ordinary course of the Company's business from those described in the Company's audited annual consolidated financial statements for the year ended January 28, 2017.

**OUTSTANDING SHARE DATA**

At November 30, 2017, 13,440,000 Common shares and 49,890,266 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 2,690,550 share options outstanding at an average exercise price of \$7.95. 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 nine months ended October 28, 2017, the Company did not purchase any shares under the normal course issuer bid approved in December 2016. 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 28, 2017.

## **OFF-BALANCE SHEET ARRANGEMENTS**

### **DERIVATIVE FINANCIAL INSTRUMENTS**

The Company in its normal course of business must make long lead-time commitments for a significant portion of its merchandise purchases, in some cases as long as twelve months. Most of these purchases must be paid for in U.S. dollars. The Company considers a variety of strategies designed to manage the cost of its continuing U.S. dollar long-term commitments, including spot rate purchases and foreign currency forward hedge contracts with maturities generally not exceeding twelve months.

Details of the foreign currency contracts outstanding as at October 28, 2017, October 29, 2016 and as at January 28, 2017 are included in the "Foreign Exchange Contracts" section of this MD&A.

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 28, 2017.

## **FINANCIAL INSTRUMENTS**

The Company is 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 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.

## **CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS**

### **KEY SOURCES OF ESTIMATION UNCERTAINTY**

There have been no significant changes in the key sources of estimation uncertainty and judgments made in relation to the accounting policies applied as disclosed in the Company's annual MD&A for the year ended January 28, 2017 (which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com)).

## **NEW ACCOUNTING POLICIES ADOPTED IN FISCAL 2018**

Except as described below, the significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended January 28, 2017 have been applied consistently in the preparation of the unaudited condensed consolidated interim financial statements.

### **DISCLOSURE INITIATIVE (AMENDMENTS TO IAS 7)**

In January 2016, the IASB issued amendments to IAS 7, *Statements of Cash Flows* that requires specific disclosures for movements in certain liabilities on the statement of cash flows. These amendments are applicable for the annual period beginning on or after January 1, 2017. These amendments did not require any significant change to the Company's presentation and disclosure in the unaudited condensed consolidated interim financial statements. The Company will be providing additional disclosure in relation to the changes in liabilities arising from financing activities in its annual consolidated financial statements for fiscal 2018.



## **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 nine months ended October 28, 2017 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 16 – *Leases*
- IFRS 15 – *Revenue from Contracts with Customers*
- IFRS 2 – *Share-based Payment*

Further information on these modifications can be found in Note 3 of the October 28, 2017 unaudited condensed consolidated interim financial statements.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reports for external purposes in accordance with IFRS.

In designing such controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

No changes were made to the Company's internal controls over financial reporting during the nine months ended October 28, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## **OUTLOOK**

The Company continues to respond to the changing retail environment that has been significantly impacted by a shift in consumer buying behaviors to online purchasing, the impact of a stronger U.S. dollar on U.S. denominated purchases and increased competition from foreign entrants in the Canadian marketplace. The Company has taken a variety of measures to respond to these challenges including significant investments in its e-commerce talent and technology. These investments are contributing to exceptional growth in e-commerce sales. Improvements in the Company's sourcing capabilities through better vendor collaboration with a focus on quality, pricing and payment terms are continuing to drive cost efficiencies. Through improved product development, branding and partnerships with noteworthy spokespersons, the banners continue to improve the store experience while maintaining attention to driving profitability of stores. The Company's wholesale operations are in the early stages but have shown exciting opportunities in the U.S. marketplace with a wide variety of retailers showing interest in product offerings.

The Company has invested considerably in technology and has plans to invest further in its store, e-commerce and fulfillment capabilities. The retail industry and our customers are changing at an accelerating pace and, as a result, the Company recognizes its need to significantly increase its agility and improve efficiencies. The ability to quickly respond to these new demands and continue to reinvent will be key to long-term growth and future success.

Changes have been made to the leadership team and the Company is optimistic that it has a strong team in place to drive growth and execute on its strategy. The Company continues to believe that it has premium brands with excellent digital capabilities, highly recognizable celebrity collaborations and strategies in place with the potential to generate long-term profitable growth for the Company.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS

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

	NOTES	FOR THE THREE MONTHS ENDED OCTOBER 28, 2017	OCTOBER 29, 2016	FOR THE NINE MONTHS ENDED OCTOBER 28, 2017	OCTOBER 29, 2016
Sales		\$ 242,373	\$ 245,604	\$ 700,601	\$ 703,538
Cost of goods sold	5	106,468	105,687	312,800	306,977
Gross profit		135,905	139,917	387,801	396,561
Selling and distribution expenses		118,767	122,164	350,778	357,627
Administrative expenses		9,806	11,229	31,180	32,434
Impairment of goodwill	6	26,340	—	26,340	—
Results from operating activities		(19,008)	6,524	(20,497)	6,500
Finance income	12	4,026	2,033	8,423	6,474
Finance costs	12	8	39	47	1,679
(Loss) earnings before income taxes		(14,990)	8,518	(12,121)	11,295
Income tax expense	11	1,846	903	1,610	691
Net (loss) earnings		\$ (16,836)	\$ 7,615	\$ (13,731)	\$ 10,604
(Loss) earnings per share:	13				
Basic		\$ (0.27)	\$ 0.12	\$ (0.22)	\$ 0.17
Diluted		(0.27)	0.12	(0.22)	0.17

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

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)  
(IN THOUSANDS OF CANADIAN DOLLARS)

	NOTES	FOR THE THREE MONTHS ENDED OCTOBER 28, 2017	OCTOBER 29, 2016	FOR THE NINE MONTHS ENDED OCTOBER 28, 2017	OCTOBER 29, 2016
Net (loss) earnings		\$ (16,836)	\$ 7,615	\$ (13,731)	\$ 10,604
Other comprehensive income (loss)					
Items that are or may be reclassified subsequently to net earnings:					
Cash flow hedges (net of tax of \$2,725 for the three months and \$535 for the nine months ended October 28, 2017; \$2,599 for the three months and \$2,340 for the nine months ended October 29, 2016)	9	7,524	7,103	(1,480)	(6,397)
Foreign currency translation differences	9	(159)	(146)	71	113
Total other comprehensive income (loss)		7,365	6,957	(1,409)	(6,284)
Total comprehensive (loss) income		\$ (9,471)	\$ 14,572	\$ (15,140)	\$ 4,320

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

# CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(UNAUDITED)  
(IN THOUSANDS OF CANADIAN DOLLARS)

	NOTES	OCTOBER 28, 2017	OCTOBER 29, 2016	JANUARY 28, 2017
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	4	\$ 119,055	\$ 101,794	\$ 120,265
Marketable securities	15	60,040	49,270	54,764
Trade and other receivables		7,044	6,048	4,256
Derivative financial asset	15	1,638	3,267	1,386
Income taxes recoverable		1,307	868	3,480
Inventories	5	146,654	167,672	146,059
Prepaid expenses		7,938	7,433	6,846
Total Current Assets		343,676	336,352	337,056
<b>NON-CURRENT ASSETS</b>				
Property and equipment		113,219	126,602	124,106
Intangible assets		19,285	23,363	23,110
Goodwill	6	11,843	38,183	38,183
Deferred income taxes		26,335	27,859	25,891
Total Non-Current Assets		170,682	216,007	211,290
<b>TOTAL ASSETS</b>		<b>\$ 514,358</b>	<b>\$ 552,359</b>	<b>\$ 548,346</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables	7	\$ 113,757	\$ 120,847	\$ 114,254
Derivative financial liability	15	5,521	3,678	3,160
Deferred revenue	8	13,892	12,705	21,478
Current portion of long-term debt	15	153	1,988	1,655
Total Current Liabilities		133,323	139,218	140,547
<b>NON-CURRENT LIABILITIES</b>				
Other payables	7	6,024	7,380	7,186
Deferred lease credits		6,424	9,053	8,230
Long-term debt	15	–	153	–
Pension liability		19,322	20,005	18,869
Total Non-Current Liabilities		31,770	36,591	34,285
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	9	38,397	38,397	38,397
Contributed surplus		10,161	9,570	9,769
Retained earnings		303,443	328,473	326,675
Accumulated other comprehensive (loss) income	9	(2,736)	110	(1,327)
Total Shareholders' Equity		349,265	376,550	373,514
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 514,358</b>	<b>\$ 552,359</b>	<b>\$ 548,346</b>

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

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)  
(IN THOUSANDS OF CANADIAN DOLLARS)

	NOTES	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME	TOTAL SHAREHOLDERS' EQUITY
<b>Balance as at January 29, 2017</b>		<b>\$ 38,397</b>	<b>\$ 9,769</b>	<b>\$ 326,675</b>	<b>\$ (1,327)</b>	<b>\$ 373,514</b>
Net loss		–	–	(13,731)	–	(13,731)
Total other comprehensive loss	9	–	–	–	(1,409)	(1,409)
<b>Total comprehensive loss for the period</b>		<b>–</b>	<b>–</b>	<b>(13,731)</b>	<b>(1,409)</b>	<b>(15,140)</b>
Share-based compensation costs	10	–	392	–	–	392
Dividends	9	–	–	(9,501)	–	(9,501)
<b>Total contributions by (distributions to) owners of the Company</b>		<b>–</b>	<b>392</b>	<b>(9,501)</b>	<b>–</b>	<b>(9,109)</b>
<b>Balance as at October 28, 2017</b>		<b>\$ 38,397</b>	<b>\$ 10,161</b>	<b>\$ 303,443</b>	<b>\$ (2,736)</b>	<b>\$ 349,265</b>
<b>Balance as at January 31, 2016</b>		<b>\$ 38,397</b>	<b>\$ 9,007</b>	<b>\$ 327,370</b>	<b>\$ 6,394</b>	<b>\$ 381,168</b>
Net earnings		–	–	10,604	–	10,604
Total other comprehensive loss	9	–	–	–	(6,284)	(6,284)
<b>Total comprehensive income (loss) for the period</b>		<b>–</b>	<b>–</b>	<b>10,604</b>	<b>(6,284)</b>	<b>4,320</b>
Share-based compensation costs	10	–	563	–	–	563
Dividends	9	–	–	(9,501)	–	(9,501)
<b>Total contributions by (distributions to) owners of the Company</b>		<b>–</b>	<b>563</b>	<b>(9,501)</b>	<b>–</b>	<b>(8,938)</b>
<b>Balance as at October 29, 2016</b>		<b>\$ 38,397</b>	<b>\$ 9,570</b>	<b>\$ 328,473</b>	<b>\$ 110</b>	<b>\$ 376,550</b>

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

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(UNAUDITED)  
(IN THOUSANDS OF CANADIAN DOLLARS)

	NOTES	FOR THE THREE MONTHS ENDED OCTOBER 28, 2017	OCTOBER 29, 2016	FOR THE NINE MONTHS ENDED OCTOBER 28, 2017	OCTOBER 29, 2016
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>					
Net (loss) earnings		\$ (16,836)	\$ 7,615	\$ (13,731)	\$ 10,604
Adjustments for:					
Depreciation, amortization and net impairment losses		10,596	11,235	32,311	32,302
Impairment of goodwill	6	26,340	–	26,340	–
Share-based compensation costs	10	(643)	430	(123)	908
Net change in fair value of marketable securities	12	(2,089)	(498)	(5,276)	(4,081)
Net change in transfer of realized (gain) loss on cash flow hedges to inventory		(282)	1,773	94	4,263
Foreign exchange loss (gain)		2,151	(263)	1,859	(79)
Interest and dividend income, net	12	(953)	(774)	(2,523)	(2,254)
Income tax expense		1,846	903	1,610	691
		20,130	20,421	40,561	42,354
Changes in:					
Trade and other receivables		(1,727)	(722)	(2,785)	(1,909)
Inventories		619	(20,513)	(595)	(42,824)
Prepaid expenses		1,411	1,214	(1,092)	1,488
Trade and other payables		(714)	944	(3,147)	22,904
Pension liability		140	108	453	669
Deferred lease credits		(550)	(183)	(1,806)	(1,587)
Deferred revenue		(3,928)	(4,523)	(7,586)	(6,620)
Cash from operating activities		15,381	(3,254)	24,003	14,475
Interest paid	12	(8)	(39)	(47)	(139)
Interest received		317	215	749	532
Dividends received		611	633	1,818	1,825
Income taxes received		114	2,119	662	2,489
Income taxes paid		–	(7)	(7)	(438)
Net cash flows from operating activities		16,415	(333)	27,178	18,744
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>					
Additions to property and equipment and intangible assets		(6,816)	(8,885)	(15,596)	(25,244)
Proceeds on disposal of property and equipment and intangibles		–	–	–	416
Cash flows used in investing activities		(6,816)	(8,885)	(15,596)	(24,828)
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>					
Dividends paid	9	(3,167)	(3,167)	(9,501)	(9,501)
Repayment of long-term debt		(508)	(477)	(1,502)	(1,410)
Cash flows used in financing activities		(3,675)	(3,644)	(11,003)	(10,911)
<b>FOREIGN EXCHANGE (LOSS) GAIN ON CASH HELD IN FOREIGN CURRENCY</b>					
		(2,310)	118	(1,789)	194
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		3,614	(12,744)	(1,210)	(16,801)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD		115,441	114,538	120,265	118,595
CASH AND CASH EQUIVALENTS, END OF THE PERIOD		\$ 119,055	\$ 101,794	\$ 119,055	\$ 101,794

Supplementary cash flow information (note 14)

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(UNAUDITED)

## 1 REPORTING ENTITY

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

## 2 BASIS OF PRESENTATION

### A) STATEMENT OF COMPLIANCE

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended January 28, 2017.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 30, 2017.

### 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;
- the pension liability is recognized as the present value of the defined benefit obligation less the fair value of the plan assets; and
- liabilities for cash-settled share-based payment arrangements are measured in accordance with IFRS 2, *Share-Based Payment*.

### C) SEASONALITY OF INTERIM OPERATIONS

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

### 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 28, 2017.



### **3 SIGNIFICANT ACCOUNTING POLICIES**

Except as described below, the significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended January 28, 2017 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

#### **DISCLOSURE INITIATIVE (AMENDMENTS TO IAS 7)**

In January 2016, the IASB issued amendments to IAS 7, *Statements of Cash Flows* which requires specific disclosures for movements in certain liabilities on the statement of cash flows. These amendments are applicable for the annual period beginning on or after January 1, 2017. These amendments did not require any significant change to the Company's presentation and disclosure in these unaudited condensed consolidated interim financial statements. The Company will be providing additional disclosure in relation to the changes in liabilities arising from financing activities in its annual consolidated financial statements for the year ending February 3, 2018.

#### **NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the nine months ended October 28, 2017 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 16 – LEASES**

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"), replacing IAS 17, *Leases* and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") has been adopted.

The Company has performed a preliminary assessment of the potential impact of the adoption of IFRS 16 on its consolidated financial statements. The Company expects the adoption of IFRS 16 will have a significant impact as the Company will recognize new assets and liabilities for its operating leases of retail stores, offices, automobiles and equipment. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Company has not yet determined which transition method it will apply or whether it will use the optional exemptions or practical expedients under the standard. The Company expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects, before the adoption of IFRS 16.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### IFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

In May 2014, the IASB issued IFRS 15. 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 expects that the implementation of IFRS 15 will impact the allocation of revenue that is deferred in relation to its customer loyalty award programs. The amount of revenue deferred is currently measured based on the fair value of loyalty points and awards granted, taking into consideration the estimated redemption percentage. Under IFRS 15, consideration will be allocated between the loyalty program awards and the goods on which the awards were earned, based on their relative stand-alone selling prices. The Company is currently assessing the impact of this change on its consolidated financial statements.

The Company also expects that the implementation of IFRS 15 will impact the allocation of revenue that is deferred in relation to gift cards sold. Currently an estimate is made of gift cards not expected to be redeemed based on historical redemption patterns. Under IFRS 15, if the Company expects to be entitled to a breakage amount for the gift cards, it will recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer. The Company is currently assessing the impact of this change on its consolidated financial statements.

Under IFRS 15, when the Company makes a sale with a right of return it recognizes revenue at the amount to which it expects to be entitled. The Company also recognizes a refund liability and an asset for any goods that it expects to be returned. The refund liability is presented gross as a refund liability and an asset for recovery. This will be a change as the Company currently presents expected returns net.

The Company does not expect the implementation of IFRS 15 to otherwise have a significant impact on its revenue; however the detailed assessment is ongoing. The Company has not yet determined which transition method it will apply.

### IFRS 2 – SHARE-BASED PAYMENT

On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The Company does not expect these amendments to have a material impact on its consolidated financial statements.

## 4 CASH AND CASH EQUIVALENTS

	OCTOBER 28, 2017	OCTOBER 29, 2016	JANUARY 28, 2017
Cash	\$ 119,055	\$ 75,697	\$ 107,767
Short-term deposits	–	26,097	12,498
	\$ 119,055	\$ 101,794	\$ 120,265

The Company's cash held with banks bears interest at variable rates. Short-term deposits at October 29, 2016 were bearing interest at 0.6% (January 28, 2017 – 0.7%).

## 5 INVENTORIES

During the three and nine months ended October 28, 2017, inventories recognized as cost of goods sold amounted to \$102,958 and \$303,975, respectively (\$101,622 and \$297,375 for the three and nine months ended October 29, 2016). In addition, for the three and nine months ended October 28, 2017, the Company recorded \$3,510 and \$8,825 (\$4,065 and \$9,602 for the three and nine months ended October 29, 2016) 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.

## 6 GOODWILL

For the purpose of impairment testing, goodwill has been allocated to the group of cash-generating units ("CGUs"), being the Addition Elle banner. Goodwill is tested for impairment annually as at the year-end reporting date or more frequently if events or changes in circumstances indicate that they may be impaired. Given the decline in profitability of the Addition Elle banner as compared to forecasts and prior periods, the Company concluded that an interim impairment test at October 28, 2017, was required. In assessing whether goodwill allocated to the Addition Elle banner is impaired, the carrying amount of this group of CGUs was compared to its recoverable amount. The recoverable amount is based on the higher of the value in use and fair value less costs to sell.

As at October 28, 2017, the recoverable amount of the Addition Elle banner CGU was based on value in use and was determined by discounting the future cash flows generated from the continuing use. Cash flow projections over a three year period were used along with a terminal value. Cash flows for fiscal 2019 to fiscal 2021 were projected based on past experience, actual operating results and budget projections with a sales growth rate of 3% in fiscal 2019, and 2% in fiscal 2020 and fiscal 2021. The terminal value was based on the long-term average growth rate for the industry which was estimated to be 2%. Projected cash flows were discounted using an after-tax discount rate of 14%. The discount rate was estimated based on a weighted average cost of capital (WACC) which was based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of the Company.

As a result of the test, the Company recorded a goodwill impairment loss of \$26,340 in the three and nine months ended October 28, 2017.

Following the impairment loss recognized in the Addition Elle banner CGU, the recoverable amount was equal to the carrying amount. Therefore, any adverse movement in the key assumptions noted above would lead to further impairment.

## 7 TRADE AND OTHER PAYABLES

	OCTOBER 28, 2017	OCTOBER 29, 2016	JANUARY 28, 2017
Trade payables	\$ 75,921	\$ 81,041	\$ 74,394
Personnel liabilities	17,634	21,096	22,507
Other non-trade payables	14,536	12,961	14,353
Payables relating to premises	9,530	11,164	9,189
Provision for sales returns	2,160	1,965	997
	119,781	128,227	121,440
Less non-current portion	6,024	7,380	7,186
	\$ 113,757	\$ 120,847	\$ 114,254

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

	OCTOBER 28, 2017	OCTOBER 29, 2016	JANUARY 28, 2017
Deferred rent and other payables relating to premises	\$ 6,024	\$ 7,035	\$ 6,671
Performance Share Units (note 10)	–	345	515
Total non-current portion of trade and other payables	\$ 6,024	\$ 7,380	\$ 7,186

## 8 DEFERRED REVENUE

	OCTOBER 28, 2017	OCTOBER 29, 2016	JANUARY 28, 2017
Loyalty points and awards granted under loyalty programs	\$ 6,280	\$ 6,025	\$ 7,981
Unredeemed gift cards	7,612	6,680	13,497
	\$ 13,892	\$ 12,705	\$ 21,478

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 9 SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

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

	FOR THE NINE MONTHS ENDED			
	OCTOBER 28, 2017		OCTOBER 29, 2016	
	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 and end of the period	49,890	37,915	49,890	37,915
Total share capital	63,330	\$ 38,397	63,330	\$ 38,397

#### AUTHORIZED SHARE CAPITAL

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

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

#### PURCHASE OF SHARES FOR CANCELLATION

The Company did not purchase any shares under a normal course issuer bid approved in December 2016 in the three and nine months ended October 28, 2017. 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 28, 2017.

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

AOCI is comprised of the following:

	CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION DIFFERENCES	TOTAL AOCI
Balance at January 29, 2017	\$ (410)	\$ (917)	\$ (1,327)
Net change in fair value of cash flow hedges (net of tax of \$1,045)	(2,891)	–	(2,891)
Transfer of realized loss on cash flow hedges to inventory (net of tax of \$510)	1,411	–	1,411
Change in foreign currency translation differences	–	71	71
Balance at October 28, 2017	\$ (1,890)	\$ (846)	\$ (2,736)
Balance at January 31, 2016	\$ 7,514	\$ (1,120)	\$ 6,394
Net change in fair value of cash flow hedges (net of tax of \$2,121)	(5,799)	–	(5,799)
Transfer of realized gain on cash flow hedges to inventory (net of tax of \$219)	(598)	–	(598)
Change in foreign currency translation differences	–	113	113
Balance at October 29, 2016	\$ 1,117	\$ (1,007)	\$ 110

#### DIVIDENDS

The following dividends were declared and paid by the Company:

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	OCTOBER 28, 2017	OCTOBER 29, 2016	OCTOBER 28, 2017	OCTOBER 29, 2016
Common shares and Class A non-voting shares	\$ 3,167	\$ 3,167	\$ 9,501	\$ 9,501
Dividend per share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15

## 10 SHARE-BASED PAYMENTS

### SHARE OPTION PLAN

On June 8, 2016, the Company amended its share option and incentive plan. Under the amended plan, the Company can, at its sole discretion, grant share options and/or Share Appreciation Rights ("SARs"). The amended plan provides that up to 10% of the Class A non-voting shares outstanding, from time to time, may be issued pursuant to the exercise of options granted under the plan to key management and employees. Under the amended plan, the granting of options and the related vesting period, which is normally up to 4 years (previously up to 5 years), are at the discretion of the Board of Directors and the options have a maximum term of up to 7 years (previously up to 10 years). The exercise price payable for each Class A non-voting share covered by a share option is determined by the Board of Directors at the date of grant, but may not be less than the closing price of the Company's shares on the trading day immediately preceding the effective date of the grant. The SARs entitle key management and employees to a cash payment based on the increase in the share price of the Company's Class A non-voting shares from the grant date to the vesting date. No SARs have been granted or are outstanding.

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

The changes in outstanding share options were as follows:

	FOR THE THREE MONTHS ENDED				FOR THE NINE MONTHS ENDED			
	OCTOBER 28, 2017		OCTOBER 29, 2016		OCTOBER 28, 2017		OCTOBER 29, 2016	
	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	2,911	\$ 7.78	3,794	\$ 9.31	3,843	\$ 9.27	3,610	\$ 9.62
Granted	—	—	50	6.49	—	—	345	4.70
Exercised	—	—	—	—	—	—	—	—
Forfeited	(44)	5.89	(71)	6.09	(976)	13.57	(182)	6.27
Outstanding, at end of period	2,867	\$ 7.81	3,773	\$ 9.33	2,867	\$ 7.81	3,773	\$ 9.33
Options exercisable, at end of period	1,625	\$ 9.11	1,970	\$ 11.90	1,625	\$ 9.11	1,970	\$ 11.90

No share option awards were granted during the three and nine months ended October 28, 2017. Compensation cost related to the share option awards granted during the three and nine months ended October 29, 2016 under the fair value based approach was calculated using the following assumptions:

	50,000 OPTIONS GRANTED SEPTEMBER 28, 2016	295,000 OPTIONS GRANTED JUNE 8, 2016
Expected option life	4.9 years	4.4 years
Risk-free interest rate	0.69%	0.80%
Expected stock price volatility	33.25%	33.11%
Average dividend yield	3.08%	4.55%
Weighted average fair value of options granted	\$ 1.37	\$ 0.78
Share price at grant date	\$ 6.49	\$ 4.40

For the three and nine months ended October 28, 2017, the Company recognized compensation costs of \$113 and \$392, respectively, relating to its share option plan (\$173 and \$563 for the three and nine months ended October 29, 2016), with a corresponding credit to contributed surplus.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### PERFORMANCE SHARE UNITS (CASH-SETTLED)

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

On April 10, 2017, the Company granted 322,000 PSUs at a weighted average share price of \$5.09 (409,000 PSUs at a weighted average share price of \$4.52 for the nine months ended October 29, 2016). PSUs vest in whole after the performance period upon meeting pre-determined non-market conditions.

The following table summarizes the grants of PSUs:

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	OCTOBER 28, 2017	OCTOBER 29, 2016	OCTOBER 28, 2017	OCTOBER 29, 2016
	PSUs (IN 000'S)	PSUs (IN 000'S)	PSUs (IN 000'S)	PSUs (IN 000'S)
Outstanding, at beginning of period	664	409	388	—
Granted	—	—	322	409
Forfeited	(25)	(13)	(71)	(13)
Outstanding, at end of period	639	396	639	396

As of October 28, 2017, the Company did not expect to meet the minimum non-market performance conditions required for all issued PSUs to vest. The Company recognized a recovery of share-based compensation costs related to PSUs of \$522 in selling and distribution expenses and \$234 in administrative expenses for the three months ended October 28, 2017 (\$349 in selling and distribution expenses and \$166 in administrative expenses for the nine months ended October 28, 2017) with a corresponding reduction in other non-current payables.

As of October 29, 2016 the Company recognized a share-based compensation expense related to PSUs of \$174 in selling and distribution expenses and \$83 in administrative expenses for the three months ended October 29, 2016 (\$236 in selling and distribution expenses and \$109 in administrative expenses for the nine months ended October 29, 2016) with a corresponding increase in other non-current payables.

## 11 INCOME TAX

In the interim periods, the income tax provision is based on an estimate of the earnings that will be generated in a full year adjusted for the impact of the fair value adjustment related to marketable securities and in the three months and nine months ended October 28, 2017 the impairment of goodwill. 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 NINE MONTHS ENDED	
	OCTOBER 28, 2017	OCTOBER 29, 2016	OCTOBER 28, 2017	OCTOBER 29, 2016
Dividend income from marketable securities	\$ 611	\$ 612	\$ 1,818	\$ 1,875
Interest income	350	201	752	518
Net change in fair value of marketable securities	2,089	498	5,276	4,081
Foreign exchange gain	976	722	577	—
Finance income	4,026	2,033	8,423	6,474
Interest expense – mortgage	8	39	47	139
Foreign exchange loss	—	—	—	1,540
Finance costs	8	39	47	1,679
Net finance income	\$ 4,018	\$ 1,994	\$ 8,376	\$ 4,795



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 13 (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share is based on net loss for the three and nine months ended October 28, 2017 of \$16,836 and \$13,731, respectively (net earnings of \$7,615 and \$10,604 for the three and nine months ended October 29, 2016).

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

	FOR THE THREE MONTHS ENDED		FOR THE NINE MONTHS ENDED	
	OCTOBER 28, 2017	OCTOBER 29, 2016	OCTOBER 28, 2017	OCTOBER 29, 2016
Weighted average number of shares – basic	63,330	63,330	63,330	63,330
Weighted average number of shares – diluted	63,330	63,359	63,330	63,330

All share options were excluded from the calculation of diluted loss per share for the three and nine months ended October 28, 2017 as these options were deemed to be anti-dilutive because the Company is in a loss position. For the three and nine months ended October 29, 2016, a total of 3,498,200 and 3,773,200, respectively, share options were excluded from the calculation of diluted earnings per share as these options were deemed to be anti-dilutive.

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

### 14 SUPPLEMENTARY INFORMATION

	OCTOBER 28, 2017	OCTOBER 29, 2016	JANUARY 28, 2017
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	\$ 2,976	\$ 903	\$ 973

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 \$1,309 and \$3,156 for the three and nine months ended October 28, 2017, respectively (\$801 and \$2,485 for three and nine months ended October 29, 2016). 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, asset impairment charges of \$224 and \$496 for the three and nine months ended October 28, 2017, respectively, were reversed following an improvement in the profitability of certain CGUs (nil and \$774 for the three and nine months ended October 29, 2016). Net impairment losses have been recorded in selling and distribution expenses.

### 15 FINANCIAL INSTRUMENTS

#### ACCOUNTING CLASSIFICATION AND FAIR VALUES

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

OCTOBER 28, 2017								
	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</b>								
<b>measured at fair value</b>								
Derivative financial asset	\$ –	\$ 1,638	\$ –	\$ 1,638	\$ –	\$ 1,638	\$ 1,638	
Marketable securities	\$ 60,040	\$ –	\$ –	\$ 60,040	\$ 60,040	\$ –	\$ 60,040	
<b>Financial liabilities</b>								
<b>measured at fair value</b>								
Derivative financial liability	\$ –	\$ 5,521	\$ –	\$ 5,521	\$ –	\$ 5,521	\$ 5,521	
<b>Financial liabilities</b>								
<b>not measured at fair value</b>								
Long-term debt	\$ –	\$ –	\$ 153	\$ 153	\$ –	\$ 153	\$ 153	

OCTOBER 29, 2016								
	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</b>								
<b>measured at fair value</b>								
Derivative financial asset	\$ –	\$ 3,267	\$ –	\$ 3,267	\$ –	\$ 3,267	\$ 3,267	
Marketable securities	\$ 49,270	\$ –	\$ –	\$ 49,270	\$ 49,270	\$ –	\$ 49,270	
<b>Financial liabilities</b>								
<b>measured at fair value</b>								
Derivative financial liability	\$ –	\$ 3,678	\$ –	\$ 3,678	\$ –	\$ 3,678	\$ 3,678	
<b>Financial liabilities</b>								
<b>not measured at fair value</b>								
Long-term debt	\$ –	\$ –	\$ 2,141	\$ 2,141	\$ –	\$ 2,201	\$ 2,201	

JANUARY 28, 2017								
	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</b>								
<b>measured at fair value</b>								
Derivative financial asset	\$ –	\$ 1,386	\$ –	\$ 1,386	\$ –	\$ 1,386	\$ 1,386	
Marketable securities	\$ 54,764	\$ –	\$ –	\$ 54,764	\$ 54,764	\$ –	\$ 54,764	
<b>Financial liabilities</b>								
<b>measured at fair value</b>								
Derivative financial liability	\$ –	\$ 3,160	\$ –	\$ 3,160	\$ –	\$ 3,160	\$ 3,160	
<b>Financial liabilities</b>								
<b>not measured at fair value</b>								
Long-term debt	\$ –	\$ –	\$ 1,655	\$ 1,655	\$ –	\$ 1,704	\$ 1,704	

There were no transfers between levels of the fair value hierarchy for the periods ended October 28, 2017, October 29, 2016 and January 28, 2017.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### DERIVATIVE FINANCIAL INSTRUMENTS

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

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

OCTOBER 28, 2017					
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Foreign exchange forward contracts	\$ 1.303	\$ 199,500	\$ 1,638	\$ (5,521)	\$ (3,883)

OCTOBER 29, 2016					
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Foreign exchange forward contracts	\$ 1.340	\$ 166,500	\$ 3,267	\$ (3,678)	\$ (411)

JANUARY 28, 2017					
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Foreign exchange forward contracts	\$ 1.319	\$ 197,000	\$ 1,386	\$ (3,160)	\$ (1,774)

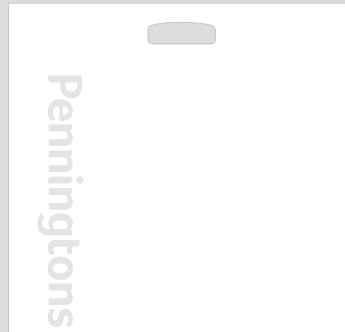
### 16 FINANCIAL RISK MANAGEMENT

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. There have been no significant changes in the Company's risk exposures during the nine months ended October 28, 2017 from those described in the Company's audited annual consolidated financial statements for the year ended January 28, 2017.

## OUR RETAIL BANNERS



**REITMANS** offers a unique combination of superior fit, fashion, quality and value. With **276 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**.



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 **122 STORES** across Canada averaging 6,000 sq. ft. and is available online at **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 **93 STORES** averaging 6,000 sq. ft. in major malls and power centres nationwide and an e-commerce site at **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 **84 STORES** averaging 4,500 sq. ft. in premium locations in major malls and power centres across Canada, as well as an e-commerce site at **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 **61 STORES** averaging 2,300 sq. ft. in major malls and power centres nationwide. Thyme Maternity fashions can also be purchased online at **thymematernity.com**.



**HYBA** launched its store locations in October 2015 offering affordable, on-trend activewear and yoga clothes for exercising or sports in sizes XS to 2X. Hyba operates **16 STORES** averaging 3,000 sq. ft. in major malls across Canada, as well as an e-commerce site at **hyba.ca**. Hyba is also available at Reitmans store locations across Canada.

## STORES ACROSS CANADA

	REITMANS	PENNINGTONS	ADDITIONELLE	RW & CO.	THYME	HYBA	TOTAL
NEWFOUNDLAND	14	3	2	1	-	-	20
PRINCE EDWARD ISLAND	2	1	-	-	-	-	3
NOVA SCOTIA	14	6	2	1	1	1	25
NEW BRUNSWICK	11	4	1	3	1	1	21
QUÉBEC	73	21	25	21	21	7	168
ONTARIO	84	46	36	31	24	5	226
MANITOBA	9	5	3	3	2	-	22
SASKATCHEWAN	8	6	2	2	2	-	20
ALBERTA	29	17	16	10	7	-	79
BRITISH COLUMBIA	30	13	6	12	3	2	66
NORTHWEST TERRITORIES	1	-	-	-	-	-	1
YUKON	1	-	-	-	-	-	1
	276	122	93	84	61	16	652

## CORPORATE INFORMATION

### ADMINISTRATION OFFICE

250 Sauvé Street West  
Montreal, Québec H3L 1Z2  
Telephone: 514-384-1140  
Fax: 514-385-2669  
e-mail: [info@reitmans.com](mailto:info@reitmans.com)  
Corporate Website: [reitmanscanadalimited.com](http://reitmanscanadalimited.com)

### REGISTERED OFFICE

155 Wellington Street West, 40<sup>th</sup> Floor  
Toronto, Ontario M5V 3J7  
Telephone: 416-863-0900  
Fax: 416-863-0871

### 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





REITMANS PENNINGTONS ADDITION ELLE RW & CO. THYME HYBA



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