REITMANS

(CANADA) LIMITED

Management's Discussion and Analysis
and
Unaudited Condensed Consolidated Interim Financial Statements

For the 13 weeks ended May 2, 2020

REITMANS

(CANADA) LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the 13 weeks ended May 2, 2020 and the audited annual consolidated financial statements for the fiscal year ended February 1, 2020 and the notes thereto which are available on the SEDAR website at www.sedar.com. This MD&A is dated July 30, 2020.

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 July 30, 2020.

Unless otherwise indicated, all comparisons of results for the 13 weeks ended May 2, 2020 ("first quarter of 2021") are against results for the 13 weeks ended May 4, 2019 ("first quarter of 2020").

Additional information about Reitmans is available on the Company's website at www.reitmanscanadalimited.com or on the SEDAR website at www.sedar.com.

Current Developments and Subsequent Events

Since the outbreak of the coronavirus disease (COVID-19), which was declared a pandemic on March 11, 2020 by the World Health Organization, there have been significant impacts for the Company during the first quarter of 2021. The measures adopted by the Federal and provincial governments in order to mitigate the spread of the pandemic required the Company to temporarily close all of its retail locations across the country. Effective March 17, 2020, the Company temporarily closed all of its retail locations and throughout the remainder of the first quarter of 2021, the Company's only sales were derived from its e-commerce channel. The Company's distribution and fulfillment center remained open to support the e-commerce business. In accordance with the laws and regulations of each applicable region and province, in late May 2020, the Company began to re-open its retail locations. Currently, all of its retail locations are open for business following newly established health protocols and social distancing working practices. As a result, the Company is incurring incremental costs for personal protective equipment and additional supply costs associated with social distancing protocols and cleaning regimens being put in place in its retail locations, distribution and fulfillment center and head office.

The extent to which COVID-19 will continue to impact the Company's business, including its supply chain, consumer shopping behavior and consumer demand, including online shopping, will depend on future developments, which are highly uncertain and cannot be predicted at this time. As the Company navigates through challenges caused by COVID-19, its focus will be to closely monitor its cash position and control its spending, while managing its inventory levels in line with the unprecedented change in demand behavior since COVID-19 started. Current financial information may not necessarily be indicative of future operating results.

The Company had taken many measures to protect its financial position during this challenging situation. Such measures included:

- Furloughing a substantial number of store and head office employees;
- All other employees collectively contributing to on-going cost-cutting initiatives through temporary salary reductions;
- Cancelling or delaying significant investments in capital expenditures for the remainder of fiscal 2021;
- Adjusting inventory levels by cancelling or delaying many orders;
- Reducing all non-payroll discretionary expenses, including marketing and travel; and
- Extending payment terms and asking for temporary price concessions for both merchandise and non-merchandise vendor invoices.

Such measures partially mitigated the impact of COVID-19 on the Company's business. However, with a net loss of $74.7 million for the first quarter of fiscal 2021, the deterioration in the Company's financial position since the end of the fiscal 2020, the continued uncertainty surrounding the pandemic, and after evaluating all its strategic options, on May 19, 2020, the Company filed and obtained protection under the Companies' Creditors Arrangement Act (the "CCAA") and Ernst & Young Inc. was appointed as the Monitor. The CCAA process allows the Company to implement an operational and commercial restructuring plan to re-position the Company for long-term success (the "restructuring plan"). On June 1, 2020, the Company announced that, as part of its restructuring plan and as approved by the Monitor, it will close the Thyme Maternity and Addition Elle banners and reduce its workforce by approximately 1,100 employees in its retail stores and approximately 300 employees at its head office. Thyme Maternity retail locations closed on July 18, 2020 and Addition Elle's planned closure is on August 15, 2020. Their respective e-commerce websites have ceased operations.

In accordance with the policies of the Toronto Stock Exchange (the "TSX"), trading in Reitmans' Common shares and Class A non-voting shares was suspended on May 19, 2020 and the Company's shares were delisted from the TSX effective at the close of business on July 29, 2020. The Company is currently working on a transition of trading from the TSX to the TSX Venture Exchange, which transition is expected to take effect by the second week of August 2020.

As at May 2, 2020, the Company had current liabilities totaling $206.6 million and liquid current assets of $42.7 million comprised of cash and cash equivalents. Based on the Company's liquidity position as of the date of this MD&A and in light of the uncertainty surrounding the pandemic, management estimates that it will need additional financing to meet its current and future financial obligations. The Company has no other sources of committed financing. The Company is currently in negotiations with a Canadian financial institution to obtain interim financing ("DIP financing"). As a result, these factors and conditions, combined with the unpredictability of the outcome of the matters arising from the CCAA proceedings, indicate that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, realize its assets and discharge its liabilities in the normal course of business.

The unaudited condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, management must take into account all available information about the future, including estimated future cash flows, for a period of at least twelve months following the end of the reporting period. The unaudited condensed consolidated interim financial statements as at May 2, 2020 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material. It is not possible to reliably estimate the length and severity of COVID-19 and the impact on the financial results and financial condition of the Company in future periods. In the remainder of fiscal 2021, the Company will continue to take into consideration the most recent developments and impacts of the pandemic, including updated assessments of future cash flows. Any additional impacts resulting from COVID-19 will be reflected in the financial results of fiscal 2021, if applicable.

FORWARD-LOOKING STATEMENTS

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

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

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

- the ability to continue as a going concern;
- the outcome of the CCAA proceedings and their impact upon supplier relationships and customer behavior;
- foreign currency fluctuations, including high levels of volatility with respect to the US dollar reflecting uncertainties to COVID-19;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates, interest rates, currency exchange rates or derivative prices;

- significant economic disruptions caused by global health risks (such as COVID-19) that influences sanitary measures (such as confinement and store closures), consumer demand and hamper the ability to get merchandise on a timely basis;
- changes in product costs and supply channels, including disruption of the Company's supply chain resulting from COVID-19;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- the changing consumer preferences toward e-commerce, online retailing and the introduction of new technologies;
- seasonality and weather;
- the inability of the Company's information technology ("IT") infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cyber security or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrinkage;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies associated with the Company's major initiatives, including those from restructuring; and
- changes in the Company's income, capital, property and other tax and regulatory liabilities, including changes in tax laws, regulations or future assessments.

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

NON-GAAP FINANCIAL MEASURES

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

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

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

As highlighted in the section entitled "Current Developments and Subsequent Events", on March 17, 2020, the Company announced the temporary closure of its retail stores and proceeded to only operate its e-commerce channel for the remaining duration of the quarter. Due to the unprecedented nature of COVID-19 and its significant impact on consumers and our ability to service our customers, management believes that comparable sales are not currently representative of the underlying trends of our business and consequently would not provide a meaningful metric in comparisons of year-over-year sales results. Accordingly, this MD&A does not include a discussion of the Company's comparable sales in respect of the first quarter of 2021. Management will continue to monitor and evaluate the effects of COVID-19 and will resume the evaluation of comparable sales when year-over-year results are more representative.

The following table reconciles net loss to Adjusted EBITDA:

	For the first quarter of	
	2021	**2020**
Net loss	**$ (74.7)**	$ (12.6)
Depreciation and amortization	**23.7**	25.1
Impairment of non-financial assets	**20.6**	1.5
Dividend income	**-**	(0.6)
Interest income	**(0.2)**	(0.5)
Net change in fair value of marketable securities	**-**	2.1
Interest expense on lease liabilities	**1.9**	1.9
Income tax expense (recovery)	**0.4**	(3.4)
Adjusted EBITDA	**$ (28.3)**	$ 13.5
Adjusted EBITDA as % of Sales	**(27.0%)**	7.3%

OVERVIEW

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

As at May 2, 2020, the Company operated under five banners. As highlighted in the section entitled "Current Developments and Subsequent Events", two of the five banners have closed or will close. Thyme Maternity closed on July 18, 2020 and Addition Elle has a planned closure date of August 15, 2020. Subsequent to their closures, the Company will operate under the following three banners:

Reitmans

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

Penningtons

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

RW&CO.

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

RETAIL BANNERS

	Number of stores at February 1, 2020	Q1 Closings	Number of stores at May 2, 2020	Number of stores at May 4, 2019
Reitmans	260	(1)	259	259
Penningtons	111	(5)	106	115
RW&CO.	80	-	80	82
Total excluding banners closed or to be closed	451	(6)	445	456
Addition Elle[1]	77	-	77	80
Thyme Maternity[2]	54	-	54	58
Total	**582**	**(6)**	**576**	**594**

[1] Addition Elle has a planned closure date of August 15, 2020.

[2] Thyme Maternity closed on July 18, 2020.

Individual store closings take place for a variety of reasons as the viability of each store and its location is constantly monitored and assessed for continuing profitability. In most cases when a store is closed, merchandise at that location is sold off in the normal course of business and any unsold merchandise remaining at the closing date is generally transferred to other stores operating under the same banner for sale in the normal course of business. In the cases of the Thyme Maternity and Addition Elle closures, the merchandise is planned to be liquidated through the Company's retail network, with minimal quantities to be written off upon closure of the banners.

PAST STRATEGIC INITIATIVES

The Company had previously undertaken a number of strategic initiatives to enhance its brands, improve productivity and profitability at all levels. However, due to the current restructuring plan under the CCAA process and the impact from COVID-19, all strategic initiatives have been postponed indefinitely or considerably reduced until financial results permit otherwise.

OPERATING RESULTS FOR THE FIRST QUARTER OF 2021 COMPARED TO THE FIRST QUARTER OF 2020

	First Quarter of 2021	First Quarter of 2020	$ Change	% Change
Sales	**$ 104.7**	$ 185.2	$ (80.5)	(43.5%)
Cost of goods sold	**73.7**	83.4	(9.7)	(11.6%)
Gross profit	**31.0**	101.8	(70.8)	(69.5%)
Gross profit %	**29.6%**	55.0%		
Selling, distribution and administrative expenses[1]	**114.5**	114.9	(0.4)	(0.3%)
Results from operating activities	**(83.5)**	(13.1)	(70.4)	n/a
Net finance income (costs)	**9.2**	(2.9)	12.1	n/a
Loss before income taxes	**(74.3)**	(16.0)	(58.3)	n/a
Income tax expense (recovery)	**0.4**	(3.4)	3.8	n/a
Net loss	**$ (74.7)**	$ (12.6)	$ (62.1)	n/a
Adjusted EBITDA	**$ (28.3)**	$ 13.5	$ (41.8)	n/a
Loss per share:				
Basic	**$ (1.53)**	$ (0.20)	$ (1.33)	n/a
Diluted	**(1.53)**	(0.20)	(1.33)	n/a

[1] Includes impairment of non-financial assets

Sales

Sales for the first quarter of 2021 decreased by $80.5 million, or 43.5%, to $104.7 million, primarily due to the impact from temporary store closures due to COVID-19 (see section entitled "Current Developments and Subsequent Events") for more than six out of the 13 weeks in the first quarter of 2021, partially offset by an increase of e-commerce sales in response to consumers' needs during the prolonged stay-at-home period.

Gross Profit

Gross profit for the first quarter of 2021 decreased $70.8 million or 69.5%, to $31.0 million as compared with $101.8 million for the first quarter of 2020. Gross profit as a percentage of sales for the first quarter of 2021 decreased to 29.6% from 55.0% for the first quarter of 2020. The decrease both in gross profit and as a percentage of sales is primarily attributable to an $18.3 million increase in the Company's inventory reserves due to the announced closures of the Thyme Maternity and Addition Elle banners, the impact of inventory build up for the spring season during the temporary store closures which will require higher markdowns and higher promotional activity on e-commerce sales during COVID-19.

Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses for the first quarter of 2021 remained nearly flat as compared to the same period in the prior year while sales have decreased 43.5%, which is primarily attributable to the following:

- decreased store operating and head office wage costs as a result of the measures taken by the Company to mitigate the financial impact from COVID-19;
- support received from the Canada Emergency Wage Subsidy ("CEWS") program of $6.6 million; offset by;

- a $19.1 million increase in impairment of non-financial assets associated mainly with a reduction of anticipated profitability of certain individual retail store locations (including the Company's restructuring plan for the Thyme Maternity and Addition Elle brands); and
- a $2.5 million increase in overall freight costs incurred due to the growth of e-commerce sales both before and after the occurrence of COVID-19.

Net Finance Income (Costs)

Net finance income was $9.2 million for the first quarter of 2021 as compared to net finance costs of $2.9 million for the first quarter of 2020. This change is primarily attributable to the following:

- a foreign exchange gain of $10.9 million for the first quarter of 2021 compared to a loss of $0.1 million for the first quarter of 2020, largely attributable to the net unrealized gain on outstanding foreign exchange forward contracts that were no longer being designated as cash flow hedges;
- as all marketable securities had been previously disposed of during fiscal 2020, there was no income or cost related to a change in fair value in the first quarter of 2021 whereas there was a $2.1 million net decrease in fair value of marketable securities for the first quarter of 2020; and
- dividend income decreased $0.6 million for the first quarter of 2021 due to no longer having any marketable securities and interest income decreased $0.3 million due to lower cash balances held throughout the first quarter of 2021.

Income Taxes

As a result of the uncertainties related to the Company's ability to generate future profitable operations and management's assessment that it is not probable that future taxable profits will be available, the income tax expense for the first quarter of 2021 was impacted by not recognizing deferred tax assets on operating losses carried forward. The tax expense is mainly comprised of the deferred income tax impact related to the reclassification of the accumulated unrealized gain associated with forward contracts from tax expense in other comprehensive income to net earnings.

Net Loss

Net loss for the first quarter of 2021 was $74.7 million ($1.53 basic and diluted loss per share) as compared with a $12.6 million net loss ($0.20 basic and diluted loss per share) for the first quarter of 2020. The increase in net loss of $62.1 million is primarily attributable to the decrease in gross profit and an increase in income tax expense, partially offset by an increase in net finance income and a slight decrease in overall operating costs, as noted above.

Adjusted EBITDA

Adjusted EBITDA for the first quarter of 2021 was a loss of $28.3 million as compared with an income of $13.5 million for the first quarter of 2020. The decrease of $41.8 million is primarily attributable to the decrease of $70.8 million in gross profit, partially offset by a reduction in operating costs (excluding depreciation, amortization and impairment of non-financial assets) of $18.1 million and an increase of $10.9 million in foreign exchange gain, as noted above.

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 "2021" are to the Company's fiscal year ending January 30, 2021, "2020" are to the Company's fiscal year ended February 1, 2020 and "2019" are to the Company's fiscal year ended February 2, 2019.

	First Quarter		Fourth Quarter		Third Quarter		Second Quarter	
	2021 [1] (13 weeks)	2020 [1] (13 weeks)	2020 [1] (13 weeks)	2019 (13 weeks)	2020 [1] (13 weeks)	2019 (13 weeks)	2020 [1] (13 weeks)	2019 (13 weeks)
Sales	$ 104.7	$ 185.2	$ 229.2	$ 226.9	$ 222.3	$ 239.7	$ 232.8	$ 248.8
Net (loss) earnings	(74.7) [2]	(12.6)	(51.7)	(8.9)	(23.1) [3]	8.9	(0.1)	10.0
(Loss) earnings per share								
Basic	$ (1.53) [2]	$ (0.20)	$ (1.06)	$ (0.14)	$ (0.47) [3]	$ 0.14	$ (0.00)	$ 0.16
Diluted	(1.53) [2]	(0.20)	(1.06)	(0.14)	(0.47) [3]	0.14	(0.00)	0.16

[1] Includes the impact of the adoption of IFRS 16, using the modified retrospective approach, beginning on February 3, 2019 (Fiscal 2020).

[2] Includes the impact of an impairment of non-financial assets of $20.6 million, additional provision for valuation of inventory of $18.3 million partially offset by $11.6 million of a net unrealized foreign exchange gain on reclassification of foreign contracts and $6.6 million of wage subsidy.

[3] Includes the impact of an impairment of goodwill of $11.8 million.

BALANCE SHEET

Selected line items from the Company's balance sheets as at May 2, 2020 and February 1, 2020 are presented below:

	May 2, 2020	February 1, 2020	$ Change	% Change
Cash and cash equivalents	**$ 42.7**	$ 89.4	$ (46.7)	(52.2)%
Trade and other receivables	**10.9**	6.3	4.6	73.0%
Inventories	**151.1**	147.4	3.7	2.5%
Net derivative financial asset	**11.6**	0.8	10.8	n/a
Prepaid expenses	**11.2**	9.4	1.8	19.1%
Property and equipment & intangible assets	**95.3**	108.4	(13.1)	(12.1)%
Right-of-use assets	**187.2**	198.1	(10.9)	(5.5)%
Trade and other payables	**128.5**	109.7	18.8	17.1%
Income taxes payable	**1.5**	3.2	(1.7)	(53.1)%
Lease liabilities (current and non-current)	**223.1**	213.9	9.2	4.3%

Changes at May 2, 2020 as compared to February 1, 2020 were primarily due to the following:

- cash and cash equivalents decreased $46.7 million due to the reduction of cash generated from operations primarily by the impact from temporary store closures due to COVID-19, partially offset by controlling expenses and the delay of payments to suppliers, the continued suspension of any payment of dividends and with lower investments made in property and equipment in the first quarter of 2021;
- trade and other receivables increased primarily due to $6.6 million recorded for wage subsidies from the Federal government, partially offset by lower credit card trade receivables due to the temporary store closures;

- inventories are higher due to the reduction in sales resulting from temporary store closures, partially offset by an increase in the inventory reserves resulting from the Company's restructuring plan to optimize its retail footprint and the estimated sell through of inventory based on customer demand and sales patterns subsequent to the first quarter of 2021;
- the change in the net derivative financial asset is the mark-to-market adjustments on foreign exchange forward contracts outstanding at the end of the first quarter of 2021;
- prepaid expenses are typically comprised of prepaid maintenance contracts and realty and business taxes. The increase is primarily due the timing of payments;
- due to the significant reduction in business stemming from COVID-19, the Company cancelled or delayed investments in capital expenditures. For the first quarter of 2021, prior to the store closures, $1.4 million had been spent on store renovations and visual display capacity units. Depreciation and amortization of $6.9 million and impairment of $7.4 million on other than right-of-use assets were recognized in the first quarter of 2021 ($8.5 million in the first quarter of 2020);
- right-of-use assets represent the right-to-use the retail stores and certain equipment over their lease terms. Right-of-use assets increased by $19.2 million due to lease additions signed early in the first quarter of 2021. Depreciation and amortization of $16.8 million and impairment of $13.2 million on right-of-use assets were recognized in the first quarter of 2021 ($18.1 million in the first quarter of 2020). The increase in impairment on right-of use assets relates to a reduction of anticipated profitability of certain individual retail store locations and in light of the economic uncertainties caused by COVID-19.
- trade and other payables increased by approximately $18.8 million primarily due to the timing of payments related to trade payables, partially offset by lower sales tax liabilities as a result of lower sales in the first quarter of 2021;
- income taxes payable decreased primarily due to a payment made to a tax authority during the first quarter of 2021;
- lease liabilities represent the present value of the Company's obligations to make lease payments for its store and equipment leases. During the first quarter of 2021, lease liabilities increased by lease additions of $19.2 million and interest expense of $1.9 million, offset by lease payments of $11.9 million.

OPERATING AND FINANCIAL RISK MANAGEMENT

Detailed descriptions of the Company's operating and financial risks are included in the Company's annual MD&A and Annual Information Form for the fiscal year ended February 1, 2020 (which are available on the SEDAR website at www.sedar.com). In addition to the risks described at that time, as highlighted in the section entitled "Current Developments and Subsequent Events", as of May 19, 2020, the Company is now under CCAA protection.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

As at May 2, 2020, the Company had current liabilities of $206.6 million (May 4, 2019 - $170.7 million; February 1, 2020 - $189.9 million) and cash and cash equivalents of $42.7 million (May 4, 2019 - $74.7 million; February 1, 2020 - $89.4 million) and no long-term financing (other than lease liabilities). Cash and cash equivalents are held in interest bearing accounts mainly with major Canadian financial institutions.

With a net loss of $74.7 million for the first quarter of fiscal 2021, the deterioration in the Company's financial position since the end of the fiscal 2020 including the effective elimination of its previous credit facilities, the continued uncertainty surrounding COVID-19, and after evaluating all its strategic options, on May 19, 2020, the Company filed and obtained protection under the CCAA and Ernst & Young Inc. was appointed as the Monitor. The CCAA process allows the Company to implement an operational and commercial restructuring plan to re-position the Company for long-term success. At the date of this MD&A, the Company has no financing facilities. The Company is currently in negotiations with a Canadian financial institution with respect to obtaining a DIP financing while under CCAA protection. The Company has also taken measures to preserve cash to the extent possible, including reducing headcount through layoffs, reducing discretionary expenditures, and deferring capital expenditures, as described above. In order to conserve cash, the Board of Directors of the Company has continued the suspension of the quarterly dividend.

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.

In the first quarter of 2021 and prior to the store closures, the Company invested $1.4 million primarily in store renovations and visual display capacity units. Given the current economic uncertainty, the Company has cancelled or delayed significant investments in capital expenditures for the remainder of fiscal 2021. In fiscal 2021, the Company expects to invest approximately $5.0 million in capital expenditures.

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 February 1, 2020. As mentioned above, on May 19, 2020, the Company obtained protection under the CCAA, which will allow the Company to implement its restructuring plan. Under the supervision of the court-appointed Monitor, liabilities in existence as at May 19, 2020 will be addressed in a Plan of Arrangement to be filed and communicated at a later date. Under the CCAA proceedings, the Company has the ability to disclaim agreements to which the Company is a party, subject to the provisions of the CCAA. Subsequent to May 2, 2020, the Company has issued disclaimer notices in respect of commercial leases for a certain number of underperforming stores.

OUTSTANDING SHARE DATA

At July 30, 2020, 13,440,000 Common shares and 35,427,322 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. The Company has 1,565,000 share options outstanding at an average exercise price of $8.45. Each share option entitles the holder to purchase one Class A non-voting share of the Company at an exercise price established based on the market price of the shares at the date the option was granted.

OFF-BALANCE SHEET ARRANGEMENTS

Derivative Financial Instruments

The Company in its normal course of business must make long lead-time commitments for a significant portion of its merchandise purchases, in some cases as long as twelve months. Most of these purchases must be paid for in U.S. dollars. The Company considered a variety of strategies designed to manage the cost of its continuing U.S. dollar long-term commitments, including spot rate purchases and foreign currency forward contracts with maturities generally not exceeding twelve months and are normally designated as cash flow hedges. Future U.S. dollar denominated purchases, hedged by outstanding forward contracts were no longer expected to occur as a result of the Company's effort to reduce future inventory purchases in response to the uncertainty surrounding COVID-19 and the restructuring plan. As a result, the Company has reclassified the accumulated unrealized gain associated with these forward contracts from other comprehensive income to net earnings. During the first quarter of 2021, the Company recognized a net unrealized gain from these forward contracts of $11.6 million in net earnings.

The Company has temporarily paused its hedging program due to the uncertainties surrounding future inventory purchase commitments as a result of COVID-19 and the restructuring plan.

Details of the foreign exchange forward contracts outstanding are as follows:

	Average Strike Price	Notional Amount in U.S. Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
May 2, 2020	**$ 1.315**	**$ 130.0**	**$ 11.6**	**$ -**	**$ 11.6**
May 4, 2019	$ 1.311	$ 135.0	$ 3.7	$ -	$ 3.7
February 1, 2020	$ 1.318	$ 175.0	$ 1.1	$ (0.3)	$ 0.8

A forward foreign exchange contract is a contractual agreement to buy or sell a specified currency at a specific price and date in the future. Credit risks exist in the event of failure by a counterparty to fulfill its obligations. The Company reduces this risk by dealing only with highly-rated counterparties, normally major Canadian chartered banks.

RELATED PARTY TRANSACTIONS

There have been no significant changes in related party transactions from those disclosed in the Company's audited annual consolidated financial statements for the year ended February 1, 2020.

FINANCIAL INSTRUMENTS

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

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

CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

Key Sources of Estimation Uncertainty

There have been no significant changes in the key sources of estimation uncertainty and judgements made in relation to the accounting policies applied as disclosed in the Company's annual MD&A for the year ended February 1, 2020 (which are available on the SEDAR website at www.sedar.com), except as disclosed in Note 2f) of the unaudited condensed consolidated interim financial statements for the first quarter of 2021.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A new amendment to standards and interpretations not yet effective for the first quarter of 2021 has not been applied in preparing the unaudited condensed consolidated interim financial statements as at and for the 13 weeks ended May 2, 2020. The amendment to standards and interpretations that is currently under review:

- COVID-19-Related Rent Concessions (Amendment to IFRS 16)

Further information on this modification can be found in Note 3a) of the unaudited condensed consolidated interim financial statements for the first quarter of 2021.

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.

There were no changes in the Company's internal control over financial reporting during the first quarter of 2021 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OUTLOOK

The Company, the retail industry and the economy in general, are facing significant headwinds in fiscal 2021. The impact of COVID-19 has been significant. The extent to which the pandemic will continue to impact the Company's business, including its supply chain, consumer shopping behavior and consumer demand, including online shopping, will depend on future developments, which are highly uncertain and cannot be predicted at this time.

The financial fallout of COVID-19 has been extremely difficult for the Company. As revenue streams and profitability decreased significantly during the first quarter of 2021, and given the continued uncertainty surrounding COVID-19, the Company entered into and obtained creditor protection under CCAA on May 19, 2020. The Company is in the process of developing an operational and commercial restructuring plan, including optimizing its retail footprint and a reduction of its workforce, to re-position the Company for long-term success. In addition, under the supervision of the court-appointed Monitor, liabilities in existence as at May 19, 2020 will be addressed in a Plan of Arrangement to be filed and communicated at a later date.

As the Company navigates through challenges caused by COVID-19, its focus will be to closely monitor its cash position and control its spending, while managing its inventory levels in line with the unprecedented change in demand behavior since the pandemic started. The Company remains focused on the health and safety of its employees and customers.

Moving forward, the Company will proudly serve customers through its Reitmans, Penningtons and RW&CO. online and brick and mortar channels across Canada. The Company's recognizable banners will continue to offer a powerful, positive brand experience with affordable pricing and enhanced product offerings. We expect that the Company's successful digital-first strategy, amongst other omnichannel initiatives, will drive sustainable growth in a challenging and evolving retail environment. See "Forward-Looking Statements".

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EARNINGS
(Unaudited)
(in thousands of Canadian dollars except per share amounts)

	Notes	For the 13 weeks ended May 2, 2020	May 4, 2019
Sales		**$ 104,707**	$ 185,194
Cost of goods sold	6	**73,710**	83,383
Gross profit		**30,997**	101,811
Selling and distribution expenses		**85,078**	102,357
Administrative expenses		**8,824**	11,068
Impairment of non-financial assets	17	**20,611**	1,484
Results from operating activities		**(83,516)**	(13,098)
Finance income	12	**11,106**	1,120
Finance costs	12	**1,877**	4,056
Loss before income taxes		**(74,287)**	(16,034)
Income tax expense (recovery)	11	**392**	(3,420)
Net loss		**$ (74,679)**	$ (12,614)
Loss per share:	13		
Basic		**$ (1.53)**	$ (0.20)
Diluted		**(1.53)**	(0.20)

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

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(in thousands of Canadian dollars)

	Notes	For the 13 weeks ended May 2, 2020	For the 13 weeks ended May 4, 2019
Net loss		**$ (74,679)**	$ (12,614)
Other comprehensive (loss) income			
Items that are or may be reclassified subsequently to net earnings:			
Cash flow hedges (net of tax of $273; 2019 - $742)	9	**(754)**	2,023
Foreign currency translation differences	9	**(276)**	(97)
Total other comprehensive (loss) income		**(1,030)**	1,926
Total comprehensive loss		**$ (75,709)**	$ (10,688)

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

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
(Unaudited)
(in thousands of Canadian dollars)

	Notes	May 2, 2020	May 4, 2019	February 1, 2020
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	4	**$ 42,697**	$ 74,653	$ 89,410
Marketable securities		**-**	47,627	-
Trade and other receivables	5	**10,945**	9,056	6,313
Derivative financial asset	15	**11,556**	3,699	1,124
Inventories	6	**151,093**	159,330	147,428
Prepaid expenses		**11,209**	15,270	9,441
Total Current Assets		**227,500**	309,635	253,716
NON-CURRENT ASSETS				
Property and equipment		**78,671**	94,209	88,090
Intangible assets		**16,616**	21,285	20,267
Right-of-use assets	17	**187,254**	216,771	198,097
Goodwill		**-**	11,843	-
Deferred income taxes		**-**	25,291	-
Total Non-Current Assets		**282,541**	369,399	306,454
TOTAL ASSETS		**$ 510,041**	$ 679,034	$ 560,170
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Trade and other payables	7	**$ 128,465**	$ 90,897	$ 109,674
Derivative financial liability	15	**-**	-	348
Deferred revenue	8	**14,731**	13,799	15,042
Income taxes payable		**1,498**	852	3,207
Current portion of lease liabilities		**61,919**	65,193	61,618
Total Current Liabilities		**206,613**	170,741	189,889
NON-CURRENT LIABILITIES				
Lease liabilities		**161,157**	160,603	152,251
Pension liability		**24,161**	21,165	24,213
Total Non-Current Liabilities		**185,318**	181,768	176,464
SHAREHOLDERS' EQUITY				
Share capital	9	**27,406**	38,397	27,406
Contributed surplus		**10,285**	10,261	10,283
Retained earnings		**81,676**	277,225	156,355
Accumulated other comprehensive (loss) income	9	**(1,257)**	642	(227)
Total Shareholders' Equity		**118,110**	326,525	193,817
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 510,041**	$ 679,034	$ 560,170

Going concern, impact of COVID-19 and CCAA proceedings (note 2(b))
Subsequent events (note 18)

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

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

(Unaudited)
(in thousands of Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Shareholders' Equity
Balance as at February 2, 2020		**$ 27,406**	**$ 10,283**	**$ 156,355**	**$ (227)**	**$ 193,817**
Net loss		**-**	**-**	**(74,679)**	**-**	**(74,679)**
Total other comprehensive loss	9	**-**	**-**	**-**	**(1,030)**	**(1,030)**
Total comprehensive loss for the period		**-**	**-**	**(74,679)**	**(1,030)**	**(75,709)**
Share-based compensation costs	10	**-**	**2**	**-**	**-**	**2**
Total contributions by owners of the Company		**-**	**2**	**-**	**-**	**2**
Balance as at May 2, 2020		**$ 27,406**	**$ 10,285**	**$ 81,676**	**$ (1,257)**	**$ 118,110**
Balance as at February 3, 2019		$ 38,397	$ 10,245	$ 292,239	$ (1,284)	$ 339,597
IFRS 16 adoption adjustment (net of tax)		-	-	767	-	767
Restated balance as at February 3, 2019		38,397	10,245	293,006	(1,284)	340,364
Net loss		-	-	(12,614)	-	(12,614)
Total other comprehensive income	9	-	-	-	1,926	1,926
Total comprehensive (loss) income for the period		-	-	(12,614)	1,926	(10,688)
Share-based compensation costs	10	-	16	-	-	16
Dividends	9	-	-	(3,167)	-	(3,167)
Total contributions by (distributions to) owners of the Company		-	16	(3,167)	-	(3,151)
Balance as at May 4, 2019		$ 38,397	$ 10,261	$ 277,225	$ 642	$ 326,525

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

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands of Canadian dollars)

	Notes	For the 13 weeks ended May 2, 2020	For the 13 weeks ended May 4, 2019
CASH FLOWS USED IN OPERATING ACTIVITIES			
Net loss		**$ (74,679)**	$ (12,614)
Adjustments for:			
Depreciation and amortization		**23,693**	25,127
Impairment of non-financial assets	17	**20,611**	1,484
Share-based compensation costs	10	**2**	136
Net change in fair value of marketable securities	12	**-**	2,063
Net change in transfer of realized gain on cash flow hedges to inventory		**(250)**	-
Foreign exchange gain		**(13,395)**	(2,968)
Interest on lease liabilities	12	**1,877**	1,921
Interest and dividend income, net	12	**(158)**	(1,120)
Income tax expense (recovery)		**392**	(3,420)
		(41,907)	10,609
Changes in:			
Trade and other receivables		**(4,790)**	(758)
Inventories		**(3,665)**	(12,521)
Prepaid expenses		**(1,768)**	(1,542)
Trade and other payables		**18,960**	(7,029)
Pension liability		**(52)**	121
Deferred revenue		**(311)**	(1,410)
Cash used in operating activities		**(33,533)**	(12,530)
Interest received		**316**	648
Dividends received		**-**	646
Income taxes received		**112**	12
Income taxes paid		**(1,941)**	(1,429)
Net cash flows used in operating activities		**(35,046)**	(12,653)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Additions to property and equipment and intangible assets, net	14	**(1,358)**	(6,171)
Cash flows used in investing activities		**(1,358)**	(6,171)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends paid	9	**-**	(3,167)
Payment of lease liabilities		**(11,875)**	(18,745)
Cash flows used in financing activities		**(11,875)**	(21,912)
FOREIGN EXCHANGE GAIN ON CASH HELD IN FOREIGN CURRENCY		**1,566**	2,871
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(46,713)**	(37,865)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD		**89,410**	112,518
CASH AND CASH EQUIVALENTS, END OF THE PERIOD		**$ 42,697**	$ 74,653

Supplementary cash flow information (note 14)

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

1. REPORTING ENTITY

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

2. BASIS OF PRESENTATION

a) Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 1, 2020.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on July 30, 2020.

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

Since the coronavirus disease (COVID-19) was declared a pandemic on March 11, 2020 by the *World Health Organization* there have been significant impacts for the Company. The measures adopted by the Federal and provincial governments in order to mitigate the spread of COVID-19 required the Company to close all of its retail locations across the country effective March 17, 2020. During the period of closure, the Company's only sales were derived from its e-commerce channel. As described in the Company's audited annual consolidated financial statements for the year ended February 1, 2020, the Company estimated that it will need additional financing to meet its current and future financial obligations.

For the 13 weeks ended May 2, 2020, the Company incurred a net loss of $74,679. The Company's current liabilities total $206,613 as at May 2, 2020 and current liquid assets consisting of cash, and cash equivalents totaling $42,697. The Company has no other sources of committed financing. Subsequent to year end, on May 19, 2020 the Company filed for protection from its creditors under the Companies' Creditors Arrangement Act ("CCAA") and has undertaken a process to secure interim financing as further described in note 18.

These factors, including the deterioration in the Company's financial position since the end of the fiscal year ended February 1, 2020, the Company's liquidity position as of the date of the approval of these condensed consolidated interim financial statements and the unpredictability of the outcome of the matters arising from the CCAA proceedings, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

These condensed consolidated interim financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern, management must take into account all available information about the future, including estimated future cash flows, for a period of at least twelve months following the end of the reporting period. These consolidated financial statements as at and for the13 weeks ended May 2, 2020 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

c) Basis of Measurement

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

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

d) Seasonality of Interim Operations

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

e) Functional and Presentation Currency

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

f) Estimates, Judgments and Assumptions

The preparation of the unaudited condensed consolidated interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, the disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the period. Management has made significant judgments in connection with the potential impact of COVID-19 on the Company's reported assets, liabilities, revenue and expenses, and on the related disclosures, using estimates and assumptions, which are subject to significant uncertainties. The extent to which COVID-19 will continue to impact the Company’s business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. These future developments include the duration, severity and scope of the COVID-19 outbreak, the measures taken by various government authorities to contain it and the reaction of the general public to, and compliance with, such containment measures. Accordingly, actual results could differ materially from those estimates and assumptions made by management.

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Company’s accounting policies and key sources of estimation of uncertainty were the same as those applied and described in the Company’s audited annual consolidated financial statements for the year ended February 1, 2020, except as noted below. The following were updated to reflect the continued and uncertain economic impact of COVID-19 which may influence consumer shopping behavior and future consumer demand.

Critical Judgements and Key Sources of Estimation Uncertainty

(i) Inventories

In determining the net realizable value of inventory, estimates are required in relation to forecasted sales and inventory balances. COVID-19 increases the risk of uncertainty related to these estimates because they are normally based on a historical pattern of sales. The unprecedented impact of COVID-19 required management to apply a higher degree of judgement in determining the estimates to set up provisions for merchandise in inventory that may have to be sold below cost.

(ii) Impairment of Non-Financial Assets

Significant management estimates are required to determine the recoverable amount of the cash-generating unit (“CGU”) including estimates of fair value, selling costs or the discounted future cash flows related to the CGU. COVID-19 increases the risk of uncertainty surrounding management’s estimates. Differences in estimates could affect whether property and equipment, right-of use assets and intangible assets are in fact impaired and the dollar amount of that impairment.

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 February 1, 2020 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

Government assistance

Government assistance is recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program and the Company is reasonably certain based on management’s judgment that the government grant will be received. Government assistance, including grants, related to operating expenses is accounted for as a reduction to the related expenses. Government assistance, including monetary and nonmonetary grants related to the acquisition of property, plant and equipment, is accounted for as a reduction of the cost of the related property, plant and equipment, and is recognized in net earnings using the same methods, periods and rates as for the related property, plant and equipment.

(a) New standards and interpretations not yet adopted:

COVID-19-Related Rent Concessions

On May 28, 2020, the IASB issued *COVID-19-Related Rent Concessions (Amendment to IFRS 16)*. The amendment is effective for annual periods beginning on or after June 1, 2020. Early adoption is permitted. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. There were no rent concessions granted from landlords during the 13 weeks ended May 2, 2020. The Company will be assessing the potential impact of this amendment for the next reporting period.

4. CASH AND CASH EQUIVALENTS

	May 2, 2020	May 4, 2019	February 1, 2020
Cash	**$ 37,134**	$ 70,487	$ 86,432
Short-term deposits (1)	**2,813**	4,166	2,978
Restricted cash (2)	**2,750**	-	-
	$ 42,697	$ 74,653	$ 89,410

(1) The Company's cash held with banks bears interest at variable rates. Short-term deposits at May 2, 2020 were bearing interest at 0.2% (February 1, 2020 – 0.5%).

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

5. TRADE AND OTHER RECEIVABLES

Trade and other receivables include an amount of $6,606 related to government grants receivable. The Government of Canada made available to businesses affected by COVID-19 the Canada Emergency Wage Subsidy ("CEWS"), which allows companies to claim a portion of employee wages when eligibility requirements are met. As at May 2, 2020, the Company believed that it qualified to receive the CEWS and that there was reasonable assurance that the amount would be received from the government. The Company recognized the grant receivable as a reduction of $5,505 of selling and distribution expenses and a reduction of $1,101 of administrative expenses for the 13 weeks ended May 2, 2020.

The Company also intends to apply for the CEWS in subsequent application periods, where the qualification criteria continues to be met.

6. INVENTORIES

During the 13 weeks ended May 2, 2020, inventories recognized as cost of goods sold amounted to $54,235 (May 4, 2019 - $81,320). In addition, the Company recorded $19,475 (May 4, 2019 - $2,063) 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.

Included in inventories is a return asset for the right to recover returned goods for $3,007 as at May 2, 2020 (May 4, 2019 - $1,778; February 1, 2020 - $1,898).

7. TRADE AND OTHER PAYABLES

	May 2, 2020	May 4, 2019	February 1, 2020
Trade payables	**$ 87,529**	$ 59,568	$ 75,132
Personnel liabilities	**17,781**	19,941	20,441
Other non-trade payables	**8,068**	6,055	9,367
Refund liability	**6,132**	4,261	3,489
Payables relating to premises	**8,955**	1,072	1,245
	$ 128,465	$ 90,897	$ 109,674

8. DEFERRED REVENUE

	May 2, 2020	May 4, 2019	February 1, 2020
Loyalty points and awards granted under loyalty programs	**$ 2,114**	$ 2,624	$ 847
Unredeemed gift cards	**12,617**	11,175	14,195
	$ 14,731	$ 13,799	$ 15,042

9. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

There was no change in share capital for each of the periods listed.

	For the 13 weeks ended			
	May 2, 2020		May 4, 2019	
	Number of shares (in 000's)	Carrying amount	Number of shares (in 000's)	Carrying amount
Common shares				
Balance at beginning and end of the period	**13,440**	**$ 482**	13,440	$ 482
Class A non-voting shares				
Balance at beginning and end of the period	**35,427**	**26,924**	49,890	37,915
Total share capital	**48,867**	**$ 27,406**	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.

Accumulated Other Comprehensive Income ("AOCI")

AOCI is comprised of the following:

	Cash Flow Hedges	**Foreign Currency Translation Differences**	**Total AOCI**
Balance at February 2, 2020	**$ 754**	**$ (981)**	**$ (227)**
Net change in fair value of cash flow hedges (net of tax of $3,229)	**8,815**	**-**	**8,815**
Transfer of realized loss on cash flow hedges to inventory (net of tax of $79)	**218**	**-**	**218**
Reclassification of cash flow hedges from OCI to foreign exchange gain within finance income (net of tax of $3,583) (note 15)	**(9,787)**	**-**	**(9,787)**
Change in foreign currency translation differences	**-**	**(276)**	**(276)**
Balance at May 2, 2020	**$ -**	**$ (1,257)**	**$ (1,257)**
Balance at February 3, 2019	$ (352)	$ (932)	$ (1,284)
Net change in fair value of cash flow hedges (net of tax of $1,518)	4,139	-	4,139
Transfer of realized gain on cash flow hedges to inventory (net of tax of $776)	(2,116)	-	(2,116)
Change in foreign currency translation differences	-	(97)	(97)
Balance at May 4, 2019	$ 1,671	$ (1,029)	$ 642

Dividends

The following dividends were declared and paid by the Company:

	For the 13 weeks ended	
	May 2, 2020	**May 4, 2019**
Common shares and Class A non-voting shares	**$ -**	$ 3,167
Dividends per share	**$ -**	$ 0.05

10. SHARE-BASED PAYMENTS

No share option awards or share appreciation rights were granted during the 13 weeks ended May 2, 2020 and May 4, 2019. For the 13 weeks ended May 2, 2020, the Company recognized share-based compensation cost of $2 ($16 for the 13 weeks ended May 4, 2019).

No performance share units ("PSUs") were granted during the 13 weeks ended May 2, 2020 (440,000 PSUs at a weighted average share price of $3.23 during the 13 weeks ended May 4, 2019). No share-based compensation costs related to PSUs were recognized for the 13 weeks ended May 2, 2020 and the Company recognized a share-based compensation expense related to PSUs of $87 in selling and distribution expenses and $33 in administrative expenses for 13 weeks ended May 4, 2019.

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. 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. Due to the uncertainties related to the Company's ability to generate future profitable operations, the Company has determined that it is not probable that future taxable profits will be available against which deferred tax assets can be utilized. Accordingly, no deferred tax assets have been recognized in the condensed consolidated interim financial statements.

For the 13 weeks ended May 2, 2020, the current tax expense is mainly comprised of the deferred income tax impact related to the reclassification of the accumulated unrealized gain associated with forward contracts from tax expense from other comprehensive income to net earnings. See note 9 and 15.

12. FINANCE INCOME AND FINANCE COSTS

	For the 13 weeks ended	
	May 2, 2020	**May 4, 2019**
Dividend income from marketable securities [(1)]	**$ -**	$ 646
Interest income	**158**	474
Foreign exchange gain [(2)]	**10,948**	-
Finance income	**11,106**	1,120
Interest expense on lease liabilities	**1,877**	1,921
Net change in fair value of marketable securities [(1)]	**-**	2,063
Foreign exchange loss	**-**	72
Finance costs	**1,877**	4,056
Net finance income (costs)	**$ 9,229**	$ (2,936)

(1) During the fiscal year ended February 1, 2020, the Company had disposed of its marketable securities.

(2) Included in foreign exchange gain is $11,556 of a net unrealized gain from foreign exchange contracts. See note 15.

13. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on a net loss for the 13 weeks ended May 2, 2020 of $74,679 (net loss of $12,614 for the 13 weeks ended May 4, 2019).

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

	For the 13 weeks ended	
	May 2, 2020	**May 4, 2019**
Weighted average number of shares - basic	**48,867**	63,330
Weighted average number of shares - diluted	**48,867**	63,330

All share options were excluded from the calculation of diluted loss per share for the 13 weeks ended May 2, 2020 and May 4, 2019 as these options were deemed to be anti-dilutive.

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

14. SUPPLEMENTARY CASH FLOW INFORMATION

	May 2, 2020	May 4, 2019	February 1, 2020
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	**$1,213**	$ 1,411	$ 1,382

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) at May 2, 2020 approximates their respective carrying amounts as at the reporting dates because of the short-term nature of those financial instruments. See note 18, Subsequent events, *Creditor protection.*

	May 2, 2020						
	Carrying Amount				Fair Value		
	Fair Value through Profit or Loss	Fair Value of Hedging Instruments	Amortized Cost	Total	Level 1	Level 2	Total
Financial assets measured at fair value through profit or loss							
Derivative financial asset	**$ 11,556**	**$ -**	**$ -**	**$ 11,556**	**$ -**	**$ 11,556**	**$ 11,556**

	May 4, 2019						
	Carrying Amount				Fair Value		
	Fair Value through Profit or Loss	Fair Value of Hedging Instruments	Amortized Cost	Total	Level 1	Level 2	Total
Financial assets measured at fair value through profit or loss							
Derivative financial asset	$ -	$ 3,699	$ -	$ 3,699	$ -	$ 3,699	$ 3,699
Marketable securities	$ 47,627	$ -	$	$ 47,627	$ 47,627	$ -	$ 47,627

	February 1, 2020						
	Carrying Amount				Fair Value		
	Fair Value through Profit or Loss	Fair Value of Hedging Instruments	Amortized Cost	Total	Level 1	Level 2	Total
Financial assets measured at fair value through profit or loss							
Derivative financial asset	$ -	$ 1,124	$ -	$ 1,124	$ -	$ 1,124	$ 1,124
Financial liabilities measured at fair value through profit or loss							
Derivative financial liability	$ -	$ 348	$ -	$ 348	$ -	$ 348	$ 348

There were no transfers between levels of the fair value hierarchy for the periods ended May 2, 2020, May 4, 2019 and February 1, 2020.

Derivative financial instruments

The Company had entered into forward contracts with its banks on the U.S. dollar. These foreign exchange contracts extended over a period normally not exceeding twelve months and were normally designated as cash flow hedges to mitigate foreign exchange risk that is part of its U.S. dollar purchases. The Company determined that it no longer met the criteria for these purchases as a result of the Company's effort to reduce future inventory purchases in response to the uncertainty surrounding COVID-19 and the restructuring plan (note 18) (note 2(b)). During the 13 weeks ended May 2, 2020, $130,000 of future U.S. dollar denominated purchases, hedged by outstanding forward contracts with an accumulated gain of $9,787 (net of tax - $3,583), were no longer expected to occur. As a result, the Company is no longer designating these forward contracts for hedge accounting and has reclassified the accumulated unrealized gain associated with these forward contracts from other comprehensive income to net earnings as part of finance income (note 9 and 12).

During the 13 weeks ended May 2, 2020, the Company has temporarily paused its hedging program due to the uncertainties surrounding future inventory purchase commitments as a result of COVID-19 and the restructuring plan (note 18). As a result, the net change in fair value of outstanding forward contracts with a notional amount of $130,000 of U.S dollars from the date of discontinuation of the hedge to May 2, 2020, a loss of $1,814, was recognized directly to net earnings as part of finance income, resulting in a net unrealized gain of $11,556 (note 12) for the 13 weeks ended May 2, 2020.

Details of the foreign exchange contracts outstanding:

	Average Strike Price	Notional Amount in U.S. Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
May 2, 2020	**$ 1.315**	**$ 130,000**	**$ 11,556**	**$ -**	**$ 11,556**
May 4, 2019	$ 1.311	$ 135,000	$ 3,699	$ -	$ 3,699
February 1, 2020	$ 1.318	$ 175,000	$ 1,124	$ (348)	$ 776

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 13 weeks ended May 2, 2020 from those described in the Company's audited annual consolidated financial statements for the year ended February 1, 2020 with exception to the following:

Liquidity Risk

The Company's lenders terminated the maximum overdraft protection of $25,000 and the facilities available for letters of credit of $40,000 have been reduced to a maximum of $1,000. For the 13 weeks ended May 2, 2020, the Company incurred a net loss of $74,679. The Company's current liabilities total $206,613 as at May 2, 2020 and current liquid assets consisting of cash and cash equivalents total $42,697. Given the deterioration in the Company's financial position since the end of the fiscal year ended February 1, 2020, the effective elimination of its previous credit facilities and the continued uncertainty surrounding COVID-19, on May 19, 2020, the Company obtained an initial order (the "Order") to seek protection from creditors under the CCAA. In conjunction with the Order, the Company has undertaken a process to secure interim financing as further described in note 18.

Foreign Currency Risk

The Company's cash flow hedge policy allows it to enter into to certain qualifying foreign exchange contracts to be designated as cash flow hedging instruments to mitigate the foreign exchange risk associated with its merchandise purchases, which are typically in U.S. dollars. As described in note 15, the uncertainty surrounding COVID-19 and the outcome of the CCAA proceedings have reduced future purchases for which foreign exchange contracts were designated as cash flow hedges are no longer expected to occur. Consequently, foreign exchange gains and losses on merchandise purchases will be recorded in net earnings instead of in other comprehensive income.

17. IMPAIRMENT OF NON-FINANCIAL ASSETS

At May 2, 2020, as a result of the adverse impact of COVID-19, the Company performed its impairment test for its non-financial assets, which resulted in the recognition of impairment losses related to right-of-use assets of $13,225 and to property and equipment of $7,386 (May 4, 2019 - $1,081 related to right-of-use assets and $403 related to property and equipment). The reduction in anticipated profitability at the individual store locations (cash-generating units “CGUs”) resulted in the estimated recoverable amounts of certain CGUs falling below the carrying amount of the CGU at period end.

Recoverable amounts of the CGUs tested for impairment were based on their estimated value in use which was determined using a cash flow model developed by the Company for each individual store locations discounted using a pre-tax discount rate of 19.0% (February 1, 2020 - 13.5%). The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant asset within the CGU. Sales forecasts for cash flows considered the weighted average impact of multiple scenarios based on operating results and internal forecasts prepared by management. A 1% increase in the discount rate does not materially change the results of the tests.

No asset impairment charges were reversed during the 13 weeks ended May 2, 2020 and May 4, 2019.

18. SUBSEQUENT EVENTS

Creditor protection

On May 19, 2020, the Company obtained an initial order (the “Order”) from the Superior Court of Quebec (the “Court”) to seek protection from creditors under the CCAA. Under the terms of the Order, Ernst & Young Inc. has been appointed as the monitor. The CCAA process will allow the Company to implement an operational and commercial restructuring plan to re-position the Company for long-term success (the “restructuring plan”).

On May 29, 2020, the Company obtained an extension of the Order from the Court for an additional stay period of up to July 27, 2020. On July 27, 2020, the Company obtained an extension of the Order from the Court for an additional stay period of up to October 16, 2020.

Interim Financing (DIP)

In conjunction with its filing under the CCAA, the Company has undertaken a process to secure an interim financing (DIP) that shall provide the required liquidity to meet the anticipated needs of the Company and its brands to continue normal operations following the opening of its retail locations and throughout the CCAA process.

Disclaimed agreements

Under the CCAA proceedings, the Company has the ability to disclaim agreements to which the Company is a party, subject to the provisions of the CCAA. Subsequent to May 2, 2020, the Company issued disclaimer notices related to commercial leases for a certain number of underperforming stores.

Delisting of the Company’s Common shares and Class A non-voting shares

In accordance with the policies of the Toronto Stock Exchange (the “TSX”), trading in the Company’s Common shares and Class A non-voting shares was suspended on May 19, 2020 and the Company’s shares were delisted from the TSX effective at the close of business on July 29, 2020. The Company is currently working on a transition of trading from the TSX to the TSX Venture Exchange, expected to take effect in August 2020.

Store re-openings

At the end of May 2020, the Company began re-opening its retail stores across Canada in accordance with Federal, Provincial and Municipal regulations surrounding the de-confinement.

Restructuring plan

On June 1, 2020, the Company announced, as part of its restructuring plan and as approved by the Monitor, the closure of the Thyme Maternity and Addition Elle brands. This announcement led to the planned closure of all retail stores and e-commerce on July 18, 2020 for Thyme Maternity. The closure of Addition Elle is planned for August 15, 2020. In addition, the Company will be reducing its workforce by approximately 1,500 employees in its retail stores and head office.