ANNUAL REPORT 2018

REITMANS

CANADA LIMITED

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.

TO OUR SHAREHOLDERS

The fiscal year ended February 3, 2018 ("fiscal 2018") includes 53 weeks instead of the normal 52 weeks. The inclusion of an extra week occurs every fifth or sixth fiscal year due to the Company's floating year-end.

Sales for fiscal 2018 were $964.0 million, an increase of $12.0 million or 1.3% over the year ended January 28, 2017 ("fiscal 2017"), including an additional week of sales of $13.3 million. The Company had a net reduction of 35 stores as it continued to close underperforming stores to optimize performance in select markets. Same store sales increased 2.9% with stores sales decreasing 0.7% and e-commerce sales increasing 38.2% as the Company continues to experience strong growth in its e-commerce channel.

Gross profit for fiscal 2018 increased $1.5 million or 0.3% to $523.9 million as compared with $522.4 million for fiscal 2017. Gross margin decreased to 54.3% for fiscal 2018 as compared to 54.9% for fiscal 2017. The improvement in gross profit was primarily due to the impact of inclusion of a 53rd week of $4.4 million, increased wholesale contribution and lower inventory reserves due to improved inventory management, partially offset by an adverse foreign exchange impact of approximately $10.0 million on U.S. denominated purchases included in cost of goods sold and increased promotional activity.

Net loss for fiscal 2018 was $16.3 million ($0.26 basic and diluted loss per share) as compared with $10.9 million net earnings ($0.17 basic and diluted earnings per share) for fiscal 2017. The change is mainly attributable to a non-tax deductible goodwill impairment expense of $26.3 million and $3.5 million of expenses, after tax, associated with the decision to close Hyba stores by the end of the current fiscal year. Excluding the impact of the impairment of goodwill, net earnings for fiscal 2018 were $10.0 million ($0.16 basic and diluted earnings per share) as compared with $10.9 million net earnings ($0.17 basic and diluted earnings per share) for fiscal 2017.

During the year, the Company opened 13 new stores and closed 48. Accordingly, at February 3, 2018, there were 642 stores in operation, consisting of 270 Reitmans, 122 Penningtons, 90 Addition Elle, 80 RW & CO., 63 Thyme Maternity, 17 Hyba, as compared with a total of 677 stores as at January 28, 2017.

The Company plans to open 11 new stores, close 37 stores and remodel 24 stores at a capital cost of approximately $17 million in the year ending February 2, 2019.

The Company continues to execute its strategy of delivering fashionable clothing at excellent prices to Canadian consumers. We are proud of our achievements over the past 90 years and most confident of our future. We believe that we have the very best specialty retailing assets in Canada. Our operations are led and staffed by highly motivated, extremely competent professionals. We extend sincere thanks and appreciation to all our associates, suppliers, customers and shareholders. These are the people who have made possible our many years of success and on whom we rely for the growth of the Company.

On behalf of the Board of Directors,

(signed)

Jeremy H. Reitman
Chairman and Chief Executive Officer

Montreal, April 4, 2018

HIGHLIGHTS

FOR THE YEARS ENDED:
(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

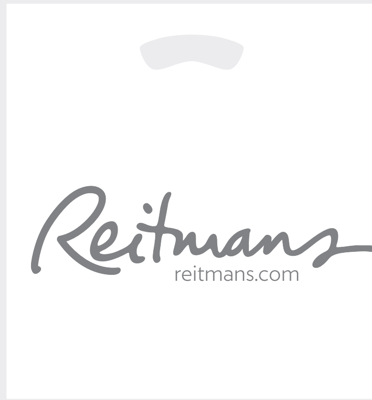
	2018	2017	2016	2015	2014
SALES					
1st Quarter	**$ 207,107**	$ 203,487	$ 201,731	$ 206,478	$ 216,861
2nd Quarter	**251,121**	254,447	252,998	258,326	253,445
3rd Quarter	**242,373**	245,604	240,270	238,295	249,414
4th Quarter	**263,357**	248,451	242,156	236,277	240,677
TOTAL	**$ 963,958**	$ 951,989	$ 937,155	$ 939,376	$ 960,397
RESULTS FROM OPERATING ACTIVITIES[1]					
1st Quarter	**$ (12,250)**	$ (12,474)	$ (10,164)	$ (16,629)	$ (5,117)
2nd Quarter	**10,761**	12,450	2,683	10,904	13,463
3rd Quarter	**(19,008)**	6,524	2,997	14,078	6,133
4th Quarter	**(7,148)**	(5,482)	(13,200)	4,143	(11,373)
TOTAL	**$ (27,645)**	$ 1,018	$ (17,684)	$ 12,496	$ 3,106
NET (LOSS) EARNINGS					
1st Quarter	**$ (6,572)**	$ (5,982)	$ (7,671)	$ (13,415)	$ (2,586)
2nd Quarter	**9,677**	8,971	(222)	9,557	10,182
3rd Quarter	**(16,836)**	7,615	(269)	12,866	5,763
4th Quarter	**(2,580)**	328	(16,541)	4,407	(2,571)
TOTAL	**$ (16,311)**	$ 10,932	$ (24,703)	$ 13,415	$ 10,788
BASIC (LOSS) EARNINGS PER SHARE					
1st Quarter	**$ (0.10)**	$ (0.09)	$ (0.12)	$ (0.21)	$ (0.04)
2nd Quarter	**0.15**	0.14	0.00	0.15	0.16
3rd Quarter	**(0.27)**	0.12	0.00	0.20	0.09
4th Quarter	**(0.04)**	0.00	(0.27)	0.07	(0.04)
TOTAL	**$ (0.26)**	$ 0.17	$ (0.39)	$ 0.21	$ 0.17
NET (LOSS) EARNINGS	**$ (16,311)**	$ 10,932	$ (24,703)	$ 13,415	$ 10,788
BASIC (LOSS) EARNINGS PER SHARE	**$ (0.26)**	$ 0.17	$ (0.39)	$ 0.21	$ 0.17
SHAREHOLDERS' EQUITY	**$ 340,830**	$ 373,514	$ 381,168	$ 421,123	$ 423,431
PER SHARE	**$ 5.38**	$ 5.90	$ 6.02	$ 6.52	$ 6.56
NUMBER OF STORES	**642**	677	767	823	878
DIVIDENDS PAID	**$ 12,666**	$ 12,666	$ 12,782	$ 12,917	$ 41,981
SHARE PRICE AT YEAR-END					
CLASS A NON-VOTING	**$ 4.25**	$ 6.05	$ 4.00	$ 8.10	$ 5.56
COMMON	**$ 4.06**	$ 5.85	$ 4.05	$ 7.11	$ 5.61

[1] Adjusted to reflect the reclassification of realized and unrealized gains and losses on foreign exchange contracts not eligible for hedge accounting to conform with presentation in the current year. Gains and losses on these foreign exchange contracts were previously reported in finance income and finance costs as described in the present MD&A.

642 STORES ACROSS CANADA

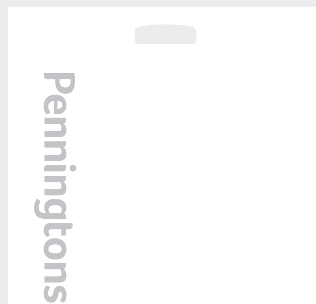
	REITMANS	PENNINGTONS	ADDITION ELLE	RW & CO.	THYME	HYBA	TOTAL
NEWFOUNDLAND	14	3	1	1	–	–	**19**
PRINCE EDWARD ISLAND	2	1	–	–	–	–	**3**
NOVA SCOTIA	14	6	2	2	1	1	**26**
NEW BRUNSWICK	10	4	1	3	1	1	**20**
QUÉBEC	71	21	24	19	20	7	**162**
ONTARIO	83	46	36	30	26	6	**227**
MANITOBA	9	5	3	3	2	–	**22**
SASKATCHEWAN	8	6	2	2	2	–	**20**
ALBERTA	27	17	15	8	7	–	**74**
BRITISH COLUMBIA	30	13	6	12	4	2	**67**
NORTHWEST TERRITORIES	1	–	–	–	–	–	**1**
YUKON	1	–	–	–	–	–	**1**
	270	**122**	**90**	**80**	**63**	**17**	**642**

OUR RETAIL BANNERS



REITMANS offers a unique combination of superior fit, fashion, quality and value. With 270 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.

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 90 STORES averaging 6,000 sq. ft. in major malls and power centres nationwide and an e-commerce site at additionelle.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.

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 63 STORES averaging 2,300 sq. ft. in major malls and power centres nationwide. Thyme Maternity fashions can also be purchased online at thymematernity.com.

RW & CO. is an aspirational lifestyle brand which caters to men and women with an urban mindset. Whether for work or for weekend, RW & CO. offers fashion that blends the latest trends with style, quality and a unique attention to detail. RW & CO. operates 80 STORES averaging 4,500 sq. ft. in premium locations in major malls and power centres across Canada, as well as an e-commerce site at rw-co.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 17 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. On March 1, 2018, the Company announced its decision to close all of its 17 Hyba store locations by the end of its current fiscal year, February 2, 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED FEBRUARY 3, 2018

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 audited consolidated financial statements of Reitmans as at and for the fiscal years ended February 3, 2018 ("fiscal 2018") and January 28, 2017 ("fiscal 2017") and the notes thereto which are available on the SEDAR website at www.sedar.com. This MD&A is dated April 4, 2018.

All financial information contained in this MD&A and Reitmans' audited consolidated 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 audited consolidated financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on April 4, 2018.

Unless otherwise indicated, all comparisons of results for the 3 months ended February 3, 2018 ("fourth quarter of 2018") are against results for the 3 months ended January 28, 2017 ("fourth quarter of 2017") and all comparisons of results for fiscal 2018 are against the results of fiscal 2017.

The Company's fiscal year ends on the Saturday closest to the end of January. Fiscal 2018 includes 53 weeks instead of the normal 52 weeks. The fourth quarter of 2018 includes 14 weeks as compared to fourth quarter of 2017 which includes 13 weeks. The inclusion of an extra week occurs every fifth or sixth fiscal year due to the Company's floating year-end.

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

- 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 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. Same store sales for fiscal 2018 exclude sales attributable to the 53rd week. Same store sales for the fourth quarter of 2018 exclude sales attributable to the 14th week. 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.

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

(in millions of Canadian dollars)	FOR THE FOURTH QUARTER OF 2018 (14 WEEKS)	FOR THE FOURTH QUARTER OF 2017 (13 WEEKS)	FOR THE FISCAL YEAR ENDED 2018 (53 WEEKS)	FOR THE FISCAL YEAR ENDED 2017 (52 WEEKS)
Net (loss) earnings	**$ (2.6)**	$ 0.3	**$ (16.3)**	$ 10.9
Depreciation, amortization and net impairment losses	**12.6**	11.9	**44.9**	44.2
Dividend income	**(0.7)**	(0.6)	**(2.5)**	(2.5)
Interest income	**(0.5)**	(0.2)	**(1.2)**	(0.7)
Impairment of goodwill	**–**	–	**26.3**	–
Net change in fair value of marketable securities	**(2.0)**	(5.5)	**(7.3)**	(9.6)
Interest expense	**0.1**	0.1	**0.1**	0.2
Income tax (recovery) expense	**(2.3)**	(0.5)	**(0.7)**	0.2
Adjusted EBITDA	**$ 4.6**	$ 5.5	**$ 43.3**	$ 42.7
Adjusted EBITDA as % of sales	**1.7%**	2.2%	**4.5%**	4.5%

OVERVIEW

The Company has a single reportable segment which 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. 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.

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

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.

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.

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.

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. Hyba is also available at Reitmans store locations across Canada.

On March 1, 2018, the Company announced its decision to close all of its 17 Hyba store locations by the end of its current fiscal year, February 2, 2019. Existing Hyba stores were primarily conversions from former Smart Set store locations during 2015 in order to expand the Hyba brand's presence in the marketplace. The Company is confident in the long-term growth potential of the Hyba brand and has determined that the optimum strategy is to continue to offer Hyba-branded products across Canada through the Company's 270 Reitmans store locations. Hyba store sales amounted to $11.8 million for fiscal 2018 ($10.4 million for fiscal 2017). Costs associated with Hyba store closures comprise non-cash asset write-offs of $1.5 million after tax and a provision for onerous store leases of $2.0 million after tax, reflected in the Company's results for the fiscal 2018. The Company does not anticipate inventory write-downs or material employee severance costs.

RETAIL BANNERS

	NUMBER OF STORES AT JANUARY 28, 2017	Q1 OPENINGS	Q1 CLOSINGS	Q2 OPENINGS	Q2 CLOSINGS	Q3 OPENINGS	Q3 CLOSINGS	Q4 OPENINGS	Q4 CLOSINGS	NUMBER OF STORES AT FEBRUARY 3, 2018
Reitmans	288	–	(5)	–	(3)	–	(4)	1	(7)	270
Penningtons	127	–	(1)	–	(1)	–	(3)	–	–	122
Addition Elle	96	–	–	–	(1)	1	(3)	1	(4)	90
RW & CO.	85	–	(1)	1	–	–	(1)	1	(5)	80
Thyme Maternity	62	–	(1)	–	(1)	2	(1)	3	(1)	63
Hyba	19	1	(1)	1	(1)	–	(3)	1	–	17
Total	**677**	**1**	**(9)**	**2**	**(7)**	**3**	**(15)**	**7**	**(17)**	**642**

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.

THREE-YEAR REVIEW OF SELECTED FINANCIAL INFORMATION

	FOR THE FISCAL YEARS ENDED FEBRUARY 3, 2018 (53 WEEKS)	JANUARY 28, 2017 (52 WEEKS)	JANUARY 30, 2016 (52 WEEKS)
Total stores at end of fiscal year[1]	**642**	677	767
Sales	**$ 964.0**	$ 952.0	$ 937.2
Gross profit	**523.9**	522.4	527.1
(Loss) earnings before income taxes	**(17.0)**	11.1	(26.1)
Net (loss) earnings	**(16.3)**	10.9	(24.7)
(Loss) earnings per share ("EPS")			
Basic	**(0.26)**	0.17	(0.39)
Diluted	**(0.26)**	0.17	(0.39)
Total assets	**499.1**	548.3	542.1
Total non-current liabilities	**34.3**	34.3	39.7
Dividends per share	**$ 0.20**	$ 0.20	$ 0.20

[1] Excludes boutiques in Babies"R"Us shop-in-shop locations in Canada operated until August 2016.

The Canadian retail marketplace continues to change rapidly with consumers' shopping behaviours blurring the lines between traditional store purchases and online shopping. In responding to this new reality, the Company embarked on key strategic initiatives aimed at improving the customers' online and in-store experience. The Company continues to invest significantly in improvements in e-commerce fulfillment and technology, ensuring a highly skilled team to support enhanced customer analytics. The Company is well positioned in an omnichannel shopping environment with a store portfolio that is located in highly desirable major malls and power centres across Canada and a compelling e-commerce offering.

The value of the Canadian dollar vis-à-vis the U.S. dollar is a significant factor that can impact profitability of the retail operations. A focus on improved sourcing practices and reducing costs, while maintaining a value proposition for customers, along with managing foreign exchange market risks through U.S. dollar foreign exchange forward contract purchases allows the Company to mitigate any negative impact.

SALES

In fiscal 2016 the net reduction of stores, including the planned reduction of Smart Set stores, contributed to lower sales while e-commerce sales continued to grow. In fiscal 2017, despite the reduced number of stores, sales showed improvement. E-commerce sales were a significant contributor to sales growth, more than offsetting the impact of a sales reduction resulting from fewer stores. The Company continued a planned further reduction in the number of stores in fiscal 2018 with sales growth driven primarily through e-commerce and wholesale channels. Stores continued to be a significant factor in responding to customers' shifting shopping behaviours in an omnichannel environment, offering a powerful, positive brand experience that capitalizes on the unique advantage of a strong network of stores.

GROSS PROFIT

The Company's gross profit and ultimately net earnings have been significantly impacted by weakness in the Canadian dollar in relation to the U.S. dollar. In the last three years, this weakening of the Canadian dollar has resulted in increased merchandise costs as virtually all merchandise payments are settled in U.S. dollars. Fiscal 2016 gross margin remained under pressure due to the weakening of the Canadian dollar and an increasingly competitive and challenging retail environment. The Company instituted cost reduction initiatives in January 2016, including the elimination of certain head office positions. The Company continued to maintain a disciplined approach to reducing costs while investing in growth areas of the business. In fiscal 2017, the Company's gross margin declined, being primarily impacted negatively by foreign exchange while gross margin for fiscal 2018 was negatively impacted by higher promotional activity and foreign exchange.

SUMMARY

The Company's balance sheet remains strong with significant positions held in cash and cash equivalents and marketable securities. Marketable securities, consisting of high quality preferred shares, are mainly impacted by movements in interest rates. A reduction in inventories is the result of fewer stores and a focus on tighter inventory management. The Company carefully manages its capital expenditures which were $33.4 million in fiscal 2016, $34.4 million in fiscal 2017 and $27.0 million in fiscal 2018. These capital expenditures are primarily investments related to digital technology and retail system upgrades, distribution and handling system improvements and existing store renovations and new store builds.

STRATEGIC INITIATIVES

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

Ongoing and new Company initiatives include:

INITIATIVES	STATUS
Related to the planned growth of its e-commerce business, the Company intends to optimally fulfill orders by leveraging the inventory in its network of stores throughout Canada (ship from store). It is anticipated that this initiative, which includes enhancing inventory visibility and availability across all channels, will improve speed of delivery, accuracy of allocation and profitability.	The Company is in the early stages of implementation and anticipates testing to commence in the third quarter of fiscal 2019.
The Company is committed to deliver best-in-class digital customer experiences. Strategically, the Company has adopted a digital-first approach, to facilitate rapid and sustainable growth in the digital and omnichannel retail environment. This includes continued improvement to the customer's mobile experience along with an initiative to provide a more personalized shopping experience for its customers utilizing improved data quality to deliver a more individualized and relevant product offering.	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. Additionally, the Company is looking to partner with best-in-class vendors to support a personalization initiative in marketing to its customers.
The Company continues to develop its international growth strategy of selected brands.	The Company has a highly skilled and experienced team devoted to expanding sales internationally. The Company has focused its efforts on wholesale expansion beyond Canada with its plus-size offerings targeting major customers, predominantly in the U.S.

OPERATING RESULTS FOR FISCAL 2018 COMPARED TO FISCAL 2017

	FISCAL 2018 (53 WEEKS)	FISCAL 2017 (52 WEEKS)	$ CHANGE	% CHANGE
Sales	**$ 964.0**	$ 952.0	$ 12.0	1.3%
Cost of goods sold	**440.1**	429.6	10.5	2.4%
Gross profit	**523.9**	522.4	1.5	0.3%
Gross profit %	**54.3%**	54.9%	–	–
Selling, distribution and administrative expenses	**525.2**	521.4	3.8	0.7%
Results from operating activities before impairment of goodwill	**(1.3)**	1.0	(2.3)	n/a
Impairment of goodwill	**26.3**	–	26.3	–
Results from operating activities	**(27.6)**	1.0	(28.6)	n/a
Net finance income	**10.6**	10.1	0.5	5.0%
(Loss) earnings before income taxes	**(17.0)**	11.1	(28.1)	n/a
Income tax recovery (expense)	**0.7**	(0.2)	0.9	n/a
Net (loss) earnings	**$ (16.3)**	$ 10.9	$ 27.2	n/a
Adjusted EBITDA	**$ 43.3**	$ 42.7	$ 0.6	1.4%
(Loss) earnings per share:				
Basic	**$ (0.26)**	$ 0.17	$ (0.43)	n/a
Diluted	**(0.26)**	0.17	(0.43)	n/a
Earnings per share excluding impairment of goodwill:				
Basic	**$ 0.16**	$ 0.17	$ (0.01)	(5.9%)
Diluted	**0.16**	0.17	(0.01)	(5.9%)

SALES

Sales for fiscal 2018 were $964.0 million which includes an additional week of sales of $13.3 million, an increase of $12.0 million or 1.3% over fiscal 2017. The Company had a net reduction of 35 stores as it continued to close underperforming stores to optimize performance in select markets. Same store sales increased 2.9% with stores sales decreasing 0.7% and e-commerce sales increasing 38.2% as the Company continues to experience strong growth in its e-commerce channel.

GROSS PROFIT

Gross profit for fiscal 2018 increased $1.5 million or 0.3%, to $523.9 million as compared with $522.4 million for fiscal 2017. The improvement in gross profit was primarily due to the impact of inclusion of a 53rd week (instead of the normal 52 weeks) of $4.4 million, increased wholesale contribution and lower inventory reserves due to improved inventory management, partially offset by an adverse foreign exchange impact of approximately $10.0 million on U.S. denominated purchases included in cost of goods sold and increased promotional activity. The Company continues its focus on distribution and sourcing opportunities to mitigate any negative impact of foreign exchange through improved vendor alliances while leveraging design and sourcing costs amongst the Company's banners.

SELLING, DISTRIBUTION AND ADMINISTRATIVE EXPENSES

Total selling, distribution and administrative expenses for fiscal 2018 increased 0.7%, or $3.8 million, to $525.2 million. Factors contributing to the increase included:

- increased expenses of $4.8 million due to costs associated with the decision to close Hyba stores, comprising asset impairments of $2.0 million and a provision for onerous store leases of $2.8 million;
- increased severance costs of $1.2 million, and merchandise purchase order cancellation costs of $1.0 million as the Company adopted tighter inventory management;
- higher selling and distribution expenses due to the inclusion of a 53rd week instead of the normal 52 weeks; partially offset by
- a decrease in performance incentive plan expenses of $3.3 million, which plan expense is based upon the attainment of operating performance targets;
- a decrease in depreciation, amortization and net impairment losses for fiscal 2018 of $1.3 million, excluding the above-noted Hyba store asset impairment loss.

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 8 of the audited consolidated financial statements for fiscal 2018). As a result, the Company recorded a goodwill impairment loss of $26.3 million for fiscal 2018.

NET FINANCE INCOME

Net finance income was $10.6 million for fiscal 2018 as compared to $10.1 million for fiscal 2017. This change is largely attributable to the following:

- increased interest income, primarily derived from cash held with banks;
- a foreign exchange loss of $0.4 million for fiscal 2018 compared to a loss of $2.5 million for fiscal 2017, largely attributable to the foreign exchange impact on U.S. denominated monetary assets and liabilities; offset in part by
- a $7.3 million increase in the fair value of marketable securities for fiscal 2018 compared to an increase of $9.6 million for fiscal 2017.

INCOME TAXES

The income tax recovery for fiscal 2018 amounted to $0.7 million for an effective tax recovery rate of 4.3% (income tax expense in fiscal 2017 amounted to $0.2 million for an effective tax expense rate of 1.7%). The effective tax rate for fiscal 2018 was impacted primarily by a non-deductible goodwill impairment expense of $26.3 million, a $7.3 million increase in the fair value of marketable securities for which no deferred tax asset has been recognized (as described in Note 9 to the audited consolidated financial statements for fiscal 2018), and by 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.

NET LOSS

Net loss for fiscal 2018 was $16.3 million ($0.26 basic and diluted loss per share) as compared with $10.9 million net earnings ($0.17 basic and diluted earnings per share) for fiscal 2017. The change from fiscal 2017 is mainly attributable to a non-tax deductible goodwill impairment expense of $26.3 million and $3.5 million of expenses, after tax, associated with the decision to close Hyba stores.

Excluding the impact of the impairment of goodwill, net earnings for fiscal 2018 were $10.0 million ($0.16 basic and diluted earnings per share) as compared with $10.9 million net earnings ($0.17 basic and diluted earnings per share) for fiscal 2017.

ADJUSTED EBITDA

Adjusted EBITDA for fiscal 2018 was $43.3 million, comparable with $42.7 million for fiscal 2017, an increase of $0.6 million.

OPERATING RESULTS FOR THE FOURTH QUARTER OF FISCAL 2018 COMPARED TO THE FOURTH QUARTER OF FISCAL 2017

	FISCAL 2018 (14 WEEKS)	FISCAL 2017 (13 WEEKS)	$ CHANGE	% CHANGE
Sales	**$ 263.4**	$ 248.4	$ 15.0	6.0%
Cost of goods sold	**127.3**	122.6	4.7	3.8%
Gross profit	**136.1**	125.8	10.3	8.2%
Gross profit %	**51.7%**	50.6%	–	–
Selling, distribution and administrative expenses	**143.2**	131.3	11.9	9.1%
Results from operating activities	**(7.1)**	(5.5)	(1.6)	29.1%
Net finance income	**2.2**	5.3	(3.1)	(58.5%)
(Loss) earnings before income taxes	**(4.9)**	(0.2)	(4.7)	n/a
Income tax recovery	**2.3**	0.5	1.8	n/a
Net (loss) earnings	**$ (2.6)**	$ 0.3	$ (2.9)	n/a
Adjusted EBITDA	**$ 4.6**	$ 5.5	$ (0.9)	(16.4%)
(Loss) earnings per share:				
Basic	**$ (0.04)**	$ 0.00	$ (0.04)	n/a
Diluted	**(0.04)**	0.00	(0.04)	n/a

SALES

Sales increased by $15.0 million or 6.0% to $263.4 million for the fourth quarter of fiscal 2018 as compared with the fourth quarter of fiscal 2017, including an additional week of sales of $13.3 million. The Company had a net reduction of 35 stores as it continued to close underperforming stores to optimize performance in select markets. Same store sales increased 3.2% with store sales decreasing 1.1% and e-commerce sales increasing 34.3% as the Company continues to experience strong growth in its e-commerce channel.

GROSS PROFIT

Gross profit for the fourth quarter of fiscal 2018 increased $10.3 million or 8.2% to $136.1 million as compared to $125.8 million for the fourth quarter of fiscal 2017. The improvement in gross profit was primarily a result of the impact of inclusion of a 14th week (instead of the normal 13 weeks) of $4.4 million along with a positive foreign exchange impact of approximately $3.2 million on U.S. dollar denominated purchases included in cost of goods sold for the fourth quarter of fiscal 2018. The Company continues its focus on distribution and sourcing opportunities to mitigate the negative impact of foreign exchange through improved vendor alliances while leveraging design and sourcing costs amongst the Company's banners.

SELLING, DISTRIBUTION AND ADMINISTRATIVE EXPENSES

Total selling, distribution and administrative expenses for the fourth quarter of fiscal 2018 increased 9.1%, or $11.9 million, to $143.2 million. Factors contributing to the increase included:

- increased expenses of $4.8 million due to costs associated with the decision to close Hyba stores, comprising asset impairments of $2.0 million and a provision for onerous store leases of $2.8 million;
- increased severance costs of $1.0 million, and merchandise purchase order cancellation costs of $1.0 million as the Company adopted tighter inventory management;
- higher selling and distribution expenses due to the inclusion of a 14th week instead of the normal 13 weeks.

NET FINANCE INCOME

Net finance income was $2.2 million for the fourth quarter of fiscal 2018 as compared to $5.3 million for the fourth quarter of fiscal 2017. This change is primarily attributable to a $2.0 million increase in the fair value of marketable securities for the fourth quarter of fiscal 2018 compared to a $5.5 million increase for the fourth quarter of fiscal 2017.

INCOME TAXES

The income tax recovery for the fourth quarter of fiscal 2018 was impacted primarily by a $2.0 million increase in the fair value of marketable securities for which no deferred tax asset has been recognized (as described in Note 9 to the audited consolidated financial statements for fiscal 2018), 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.

NET LOSS

Net loss for the fourth quarter of fiscal 2018 was $2.6 million ($0.04 basic and diluted loss per share) as compared with $0.3 million net earnings ($0.00 basic and diluted earnings per share) for the fourth quarter of fiscal 2017. This $2.9 million reduction is due mainly to $3.5 million of expenses, after tax, associated with the decision to close Hyba stores.

ADJUSTED EBITDA

Adjusted EBITDA for the fourth quarter of fiscal 2018 was $4.6 million comparable with $5.5 million for the fourth quarter of fiscal 2017, a decrease of $0.9 million.

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 forwards 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 being met through spot U.S. dollar purchases. In fiscal 2018, merchandise purchases, payable in U.S. dollars, approximated $244 million U.S.

Details of the foreign exchange contracts outstanding as at February 3, 2018 are as follows:

	FEBRUARY 3, 2018				
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Foreign exchange forwards contracts	**$ 1.286**	**$ 204.5**	**$ –**	**$ (9.7)**	**$ (9.7)**

	JANUARY 28, 2017				
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Foreign exchange forwards 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 ended February 3, 2018 and "2017" are to the Company's fiscal year ended January 28, 2017.

	FOURTH QUARTER		THIRD QUARTER		SECOND QUARTER		FIRST QUARTER	
	2018 (14 WEEKS)	2017 (13 WEEKS)	2018[1] (13 WEEKS)	2017 (13 WEEKS)	2018 (13 WEEKS)	2017 (13 WEEKS)	2018 (13 WEEKS)	2017 (13 WEEKS)
Sales	$ 263.4	$ 248.4	$ 242.4	$ 245.6	$ 251.1	$ 254.4	$ 207.1	$ 203.5
Net (loss) earnings	(2.6)	0.3	(16.8)	7.6	9.7	9.0	(6.6)	(6.0)
(Loss) earnings per share								
Basic	$ (0.04)	$ –	$ (0.27)	$ 0.12	$ 0.15	$ 0.14	$ (0.10)	$ (0.09)
Diluted	(0.04)	–	(0.27)	0.12	0.15	0.14	(0.10)	(0.09)
Net (loss) earnings before impairment of goodwill	$ (2.6)	$ 0.3	$ 9.5	$ 7.6	$ 9.7	$ 9.0	$ (6.6)	$ (6.0)
(Loss) earnings per share excluding impairment of goodwill								
Basic	$ (0.04)	$ –	$ 0.15	$ 0.12	$ 0.15	$ 0.14	$ (0.10)	$ (0.09)
Diluted	(0.04)	–	0.15	0.12	0.15	0.14	(0.10)	(0.09)

[1] Includes the impact of an impairment of goodwill of $26.3 million related to the Addition Elle banner.

BALANCE SHEET

Selected line items from the Company's balance sheets as at February 3, 2018 and January 28, 2017 are presented below:

	2018	2017	$ CHANGE	% CHANGE
Cash and cash equivalents	**$ 104.7**	$ 120.3	$ (15.6)	(13.0%)
Marketable securities	**62.0**	54.8	7.2	13.1%
Trade and other receivables	**4.9**	4.3	0.6	14.0%
Income taxes recoverable	**2.2**	3.5	(1.3)	(37.1%)
Inventories	**136.0**	146.1	(10.1)	(6.9%)
Prepaid expenses	**19.2**	6.8	12.4	n/a
Property and equipment & intangible assets	**129.7**	147.2	(17.5)	(11.9%)
Goodwill	**11.9**	38.2	(26.3)	(68.8%)
Deferred income taxes	**28.4**	25.9	2.5	9.7%
Trade and other payables (current and long-term)	**101.3**	121.4	(20.1)	(16.6%)
Net derivative financial liability	**9.7**	1.8	7.9	n/a
Deferred revenue	**21.6**	21.5	0.1	0.5%

Changes in selected line items from the Company's balance sheets at February 3, 2018 as 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 fiscal 2018;
- marketable securities increased due to the net change in their fair value in fiscal 2018;
- trade and other receivables were comparable and consist primarily of credit card sales from the last few days of the fiscal quarter, wholesale account receivables and government incentive program receivables;

- income taxes recoverable consist of tax refunds relating to prior years, net of current year tax liabilities;
- a reduction in inventories is the result of fewer stores and a focus on tighter inventory management. The Company also carefully manages its inventory held to support the significant growth in the e-commerce channel;
- prepaid expenses, consisting mainly of prepaid rent, insurance, maintenance contracts and realty and business taxes increased $12.4 million principally due to February 2018 rent that was paid and classified as a prepaid item;
- the Company continues to closely manage its investment in property and equipment and intangible assets. The decrease reflects the reduction in the number of stores. For fiscal 2018, $27.0 million ($34.4 million in fiscal 2017) was invested in property and equipment and intangible assets. Depreciation, amortization and net impairment losses of $44.9 million were recognized in fiscal 2018 ($44.2 million in fiscal 2017);
- the reduction of goodwill is attributable to the recognition of an impairment of goodwill charge related to the Addition Elle banner as described in Note 8 to the audited consolidated financial statements for fiscal 2018;
- deferred income taxes increased by $2.5 million largely due to deductible temporary timing differences arising on foreign exchange forwards contracts. Deferred income taxes arise primarily due to deductible temporary timing differences on property and equipment and intangible assets and pension liability;
- trade and other payables were impacted mainly by the timing of payments for vendor liabilities and various sales and withholding taxes resulting from the year-end being one week later than normal due to the 53rd week. 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 forwards contracts;
- deferred revenue was comparable and 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 RISK MANAGEMENT

ECONOMIC ENVIRONMENT

Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global, national or regional economic volatility. These factors could negatively affect the Company's revenue and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation will affect consumer prices, which in turn could negatively affect the financial performance of the Company. The Company closely monitors economic conditions in order to react to consumer spending habits and constraints in developing both its short-term and long-term operating decisions. The Company is in a strong financial position with significant liquidity available and ample credit resources to draw upon as deemed necessary.

COMPETITIVE ENVIRONMENT

The retail apparel business in Canada is highly competitive with competitors including department stores, specialty apparel chains and independent retailers. If the Company is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be negatively affected. There is no effective barrier to entry into the Canadian apparel retailing marketplace by any potential competitor, foreign or domestic, as witnessed by the arrival over the past years of a number of foreign-based competitors and additional foreign retailers continuing to expand into the Canadian marketplace. Additionally, Canadian consumers have a significant number of e-commerce shopping alternatives available to them on a global basis. The Company believes that it is well positioned to compete with any competitor. The Company operates multiple banners with product offerings that are diversified as each banner is directed to and focused on a different niche in the Canadian women's apparel market. The Company's stores, located throughout Canada, offer affordable fashions to consumers. The Company also offers an e-commerce alternative for shoppers through each of the banners' websites. The e-commerce retail landscape is highly competitive with both domestic and foreign competition. The Company has invested significantly in its e-commerce websites and social media to drive consumers to the websites and believes that it is positioned well to compete in this environment.

DISTRIBUTION AND SUPPLY CHAIN

The Company depends on the efficient operation of its sole distribution centre, such that any significant disruption in the operation thereof (e.g. natural disaster, system failures, destruction or major damage by fire), could materially delay or impair the Company's ability to replenish its stores on a timely basis or satisfy e-commerce demand causing a loss of sales and potential dissatisfaction amongst its customers, which could have a significant effect on the results of operations.

LOYALTY PROGRAMS

The Company's loyalty programs are a valuable offering to customers and provide a key marketing tool for the business. The marketing, promotional and other business activities related to possible changes to the loyalty programs must be well managed and coordinated to preserve positive customer perception. Any failure to successfully manage the loyalty programs may negatively impact the Company's reputation and financial performance.

LEASES

All of the Company's stores are held under leases, most of which can be renewed for additional terms at the Company's option. The Company has good relationships with its landlords. Any factor which would have the effect of impeding or affecting, in a material way, the Company's ability to lease prime locations or re-lease and/or renovate existing profitable locations, or delay the Company's ability to close undesirable locations could adversely impact the Company's operations.

CONSUMER SHOPPING PATTERNS

Changes in customer shopping patterns could affect sales. Many of the Company's stores are located in enclosed shopping malls. The ability to sustain or increase the level of sales depends in part on the continued popularity of malls as shopping destinations and the ability of malls, tenants and other attractions to generate a high volume of customer traffic. Many factors that are beyond the control of the Company may decrease mall traffic, including economic downturns, closing of anchor department stores, weather, concerns of terrorist attacks, construction and accessibility, alternative shopping formats such as e-commerce, discount stores and lifestyle centres, among other factors. Any changes in consumer shopping patterns could adversely affect the Company's financial condition and operating results.

WEATHER

Changes in weather can affect the planned receipt and/or distribution of merchandise and the timing of consumer spending, and may have an adverse effect upon the Company's results of operations. In particular, unseasonably warm or cold weather, especially during the Company's peak selling seasons, may have an adverse effect on consumer shopping patterns and on the Company's sales.

SEASONALITY

The Company's business is seasonal and is also subject to a number of factors which directly impact retail sales of apparel over which it has no control, namely fluctuations in weather patterns, swings in consumer confidence and buying habits and the potential of rapid changes in fashion preferences.

INFORMATION TECHNOLOGY

The Company depends on information systems to manage its operations, including a full range of retail, financial, merchandising and inventory control, planning, forecasting, reporting and distribution systems. The Company continues to undertake investments in new IT systems to improve the operating effectiveness of the organization. Failure to successfully migrate from legacy systems to new IT systems or a significant disruption in the Company's IT systems in general could result in a lack of accurate data to enable management to effectively manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses. The Company also depends on relevant and reliable information to operate its business. As the volume of data being generated and reported continues to increase across the Company, data accuracy, quality and governance are required for effective decision making.

Failure to successfully adopt or implement appropriate processes to support the new IT systems, or failure to effectively leverage or convert data from one system to another, may preclude the Company from optimizing its overall performance and could result in inefficiencies and duplication in processes, which in turn could adversely affect the reputation, operations or financial performance of the Company. Failure to realize the anticipated strategic benefits including revenue growth, anticipated cost savings or operating efficiencies associated with the new IT systems could adversely affect the reputation, operations or financial performance of the Company.

LAWS AND REGULATION

The Company is structured in a manner that management considers to be most effective to conduct its business. The Company is subject to material and adverse changes in government regulation that might impact income and sales, taxation, duties, quota impositions or re-impositions and other legislated or government regulated matters.

Changes to any of the laws, rules, regulations or policies (collectively, "laws") applicable to the Company's business, including income, capital, property and other taxes, and laws affecting the importation, distribution, packaging and labelling of products, could have an adverse impact on the financial or operational performance of the Company. In the course of complying with such changes, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business. Failure by the Company to comply with applicable laws and orders in a timely manner could subject the Company to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could negatively affect the reputation, operations and financial performance of the Company.

The Company is subject to tax audits from various government and regulatory agencies on an ongoing basis. As a result, from time to time, taxing authorities may disagree with the positions and conclusions taken by the Company in its tax filings or laws could be amended or interpretations of current laws could change, any of which events could lead to reassessments. These reassessments could have a material impact on the Company's financial position, operating results or cash flows in future periods.

MERCHANDISE SOURCING

Virtually all of the Company's merchandise is private label. On an annual basis, the Company directly imports over 90% of its merchandise, largely from Asia. In fiscal 2018, no supplier represented more than 10% of the Company's purchases (in dollars and/or units) and there are a variety of alternative sources (both domestic and international) for virtually all of the Company's merchandise. The Company has good relationships with its suppliers and has no reason to believe that it is exposed to any material risk that would prevent the Company from acquiring, distributing and/or selling merchandise on an ongoing basis.

The Company endeavours to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted sourcing and other business practices to address the environmental concerns of its customers. The Company has established guidelines that require compliance with all applicable environmental laws and regulations. Although the Company requires its suppliers to adhere to these guidelines, there is no guarantee that these suppliers will not take actions that could hurt the Company's reputation, as they are independent third parties that the Company does not control. However, if there is a lack of apparent compliance, it may lead the Company to search for alternative suppliers. This may have an adverse effect on the Company's financial results, by increasing costs and potentially causing delays in delivery.

CYBER SECURITY, PRIVACY AND PROTECTION OF PERSONAL INFORMATION

The Company is subject to various laws regarding the protection of personal information of its customers, cardholders and employees and has adopted a Privacy Policy setting out guidelines for the handling of personal information. The Company's IT systems contain personal information of customers, cardholders and employees. Any failures or vulnerabilities in these systems or non-compliance with laws or regulations, including those in relation to personal information belonging to the Company's customers and employees, could negatively affect the reputation, operations and financial performance of the Company.

The Company depends on the uninterrupted operation of its IT systems, networks and services including internal and public internet sites, data hosting and processing facilities, cloud-based services and hardware, such as point-of-sale processing at stores, to operate its business. In the ordinary course of business, the Company collects, processes, transmits and retains confidential, sensitive and personal information ("Confidential Information") regarding the Company and its employees, vendors, customers and credit card holders. Some of this Confidential Information is held and managed by third party service providers. As with other large and prominent companies, the Company is regularly subject to cyber attacks and such attempts are occurring more frequently, are constantly evolving in nature and are becoming more sophisticated.

The Company has implemented security measures, including employee training, monitoring and testing, maintenance of protective systems and contingency plans, to protect and to prevent unauthorized access of Confidential Information and to reduce the likelihood of disruptions to its IT systems. The Company also has security processes, protocols and standards that are applicable to its third party service providers. Despite these measures, all of the Company's information systems, including its back-up systems and any third party service provider systems that it employs, are vulnerable to damage, interruption, disability or failures due to a variety of reasons, including physical theft, fire, power loss, computer and telecommunication failures or other catastrophic events, as well as from internal and external security breaches, denial of service attacks, viruses, worms and other known or unknown disruptive events.

The Company or its third party service providers may be unable to anticipate, timely identify or appropriately respond to one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber terrorists and others may attempt to breach the Company's security measures or those of our third party service providers' information systems. As cyber threats evolve and become more difficult to detect and successfully defend against, one or more cyber threats might defeat the Company's security measures or those of its third party service providers. Moreover, employee error or malfeasance, faulty password management or other irregularities may result in a breach of the Company's or its third party service providers' security measures, which could result in a breach of employee, customer or credit card holder privacy or Confidential Information.

If the Company does not allocate and effectively manage the resources necessary to build and sustain reliable IT infrastructure, fails to timely identify or appropriately respond to cyber security incidents, or the Company's or its third party service providers' information systems are damaged, destroyed, shut down, interrupted or cease to function properly, the Company's business could be disrupted and the Company could, among other things, be subject to: transaction errors; processing inefficiencies; the loss of existing customers or failure to attract new customers; the loss of sales; the loss or unauthorized access to Confidential Information or other assets; the loss of or damage to intellectual property or trade secrets; damage to its reputation; litigation; regulatory enforcement actions; violation of privacy, security or other laws and regulations; and remediation costs.

LEGAL PROCEEDINGS

In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings. The proceedings may involve suppliers, customers, regulators, tax authorities or other persons. The potential outcome of legal proceedings and claims is uncertain and could result in a material adverse effect on the Company's reputation, operations or financial condition or performance.

MERCHANDISING, ELECTRONIC COMMERCE AND DISRUPTIVE TECHNOLOGIES

The Company may have inventory that customers do not want or need, is not reflective of current trends in customer tastes, habits or regional preferences, is priced at a level customers are not willing to pay or is late in reaching the market. In addition, the Company's operations, specifically inventory levels, sales, volume and product mix, are impacted to some degree by seasonality, including certain holiday periods in the year. If merchandising efforts are not effective or responsive to customer demand, it could adversely affect the Company's financial performance.

The Company's e-commerce strategy is a growing business initiative. As part of the e-commerce initiative, customers expect innovative concepts and a positive customer experience, including a user-friendly website, safe and reliable processing of payments and a well-executed merchandise pick up or delivery process. If systems are damaged or cease to function properly, capital investment may be required. The Company is also vulnerable to various additional uncertainties associated with e-commerce including website downtime and other technical failures, changes in applicable federal and provincial regulations, security breaches, and consumer privacy concerns. If these technology-based systems do not function effectively, the Company's ability to grow its e-commerce business could be adversely affected. The Company has increased its investment in improving the digital customer experience, but there can be no assurances that the Company will be able to recover the costs incurred to date.

The retail landscape is quickly changing due to the rise of the digitally influenced shopping experience and the emergence of disruptive technologies. In addition, the effect of increasing digital advances could have an impact on the physical space requirements of retail businesses. Although the importance of a retailer's physical presence has been demonstrated, the size requirements and locations may be subject to further disruption. Any failure to adapt the business models to recognize and manage this shift in a timely manner could adversely affect the Company's operations or financial performance.

FINANCIAL RISK MANAGEMENT

The Company is exposed to a number of financial risks, including those associated with financial instruments, which have the potential to affect its operating and financial performance. The Company uses derivative instruments to offset certain of these risks. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. The fair value of derivative instruments is subject to changing market conditions which could adversely affect the financial performance of the Company.

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. Disclosures relating to the Company's exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk are provided below.

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, marketable securities, trade and other receivables and foreign currency forwards exchange contracts. The Company limits its exposure to credit risk with respect to cash and cash equivalents and foreign currency forwards contracts by dealing with major Canadian financial institutions. Marketable securities consist of preferred shares of highly-rated Canadian public companies. The Company's trade and other receivables consist primarily of credit card receivables from the last few days of the fiscal year, which are settled within the first days of the next fiscal year. Due to the nature of the Company's activities and the low credit risk of the Company's trade and other receivables as at February 3, 2018 and January 28, 2017, expected credit loss on these financial assets is not significant.

As at February 3, 2018, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$	104.7
Marketable securities		62.0
Trade and other receivables		4.9
	$	**171.6**

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of trade and other payables is within twelve months. As at February 3, 2018, the Company had a high degree of liquidity with $166.7 million in cash and cash equivalents and marketable securities. In addition, the Company has unsecured credit facilities of $75 million subject to annual renewals. The Company has financed its store expansion through internally-generated funds and its unsecured credit facilities are used to finance seasonal working capital requirements for U.S. dollar merchandise purchases.

FOREIGN CURRENCY RISK

The Company purchases a significant amount of its merchandise with U.S. dollars and as such significant volatility in the U.S. dollar vis-à-vis the Canadian dollar can have an adverse impact on the Company's gross margin. The Company has a variety of alternatives that it considers to manage its foreign currency exposure on cash flows related to these purchases. These include, but are not limited to, various styles of foreign currency option or forward contracts, normally not to exceed twelve months, and spot rate purchases. A foreign currency option contract represents an option or obligation to buy a foreign currency from a counterparty. A foreign currency forward contract is a contractual agreement to buy or sell a specified currency at a specific price and date in the future. The Company enters into certain qualifying foreign exchange contracts that it designated as cash flow hedging instruments. This has resulted in mark-to-market foreign exchange adjustments, for qualifying hedged instruments, being recorded as a component of other comprehensive income. The foreign exchange contracts that were settled during the fiscal 2018 were designated as cash flow hedges and qualified for hedge accounting. The underlying risk of the foreign exchange contracts is identical to the hedged risk, and accordingly the Company established a ratio of 1:1 for all foreign exchange hedges.

The Company has performed a sensitivity analysis on its U.S. dollar denominated financial instruments, which consist principally of cash and cash equivalents of $16.2 million and trade payables of $43.4 million to determine how a change in the U.S. dollar exchange rate would impact net earnings. On February 3, 2018, a 5% rise or fall in the Canadian dollar against the U.S. dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $1.6 million increase or decrease, respectively, in the Company's net earnings for fiscal 2018.

The Company has performed a sensitivity analysis on its derivative financial instruments (which are all designated as cash flow hedges), to determine how a change in the U.S. dollar exchange rate would impact other comprehensive income. On February 3, 2018, a 5% rise or fall in the Canadian dollar against the U.S. dollar, assuming that all other variables had remained the same, would have resulted in a $9.2 million decrease or increase, respectively, in the Company's other comprehensive income for fiscal 2018.

INTEREST RATE RISK

Interest rate risk exists in relation to the Company's cash and cash equivalents. Market fluctuations in interest rates impacts the Company's earnings with respect to interest earned on cash and cash equivalents that are invested mainly with major Canadian financial institutions. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $75 million or its U.S. dollar equivalent that it utilizes for documentary and standby letters of credit, and the Company funds the drawings on these facilities as the payments are due.

The Company has performed a sensitivity analysis on interest rate risk at February 3, 2018 to determine how a change in interest rates would impact net earnings. For fiscal 2018, the Company earned interest income of $1.2 million on its cash and cash equivalents. An increase or decrease of 100 basis points in the average interest rate earned during the year would have increased or decreased net earnings by $0.9 million, respectively. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

EQUITY PRICE RISK

Equity price risk arises from marketable securities. The Company monitors the mix of equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Chief Executive Officer.

The Company has performed a sensitivity analysis on equity price risk at February 3, 2018, to determine how a change in the market price of the Company's marketable securities would impact net earnings. The Company's equity investments consist principally of preferred shares of highly-rated Canadian public companies. The Company believes that changes in interest rates influence the market price of these securities. A 5% increase or decrease in the market price of the securities at February 3, 2018, would result in a $3.0 million increase or decrease, respectively, in net earnings for fiscal 2018. The Company's equity securities are subject to market risk and, as a result, the impact on net earnings may ultimately be greater than that indicated above.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company primarily uses funds for working capital requirements, capital expenditures and payment of dividends. Shareholders' equity as at February 3, 2018 amounted to $340.8 million or $5.38 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 $166.7 million as at February 3, 2018 (January 28, 2017 – $175.1 million). Cash is held in interest bearing accounts with major Canadian financial institutions. The Company closely monitors its risk with respect to cash investments. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $75 million or its U.S. dollar equivalent. As at February 3, 2018, $4.3 million (January 28, 2017 – $9.7 million) of the operating lines of credit were committed for documentary and standby letters of credit. These credit facilities are used principally for U.S. dollar letters of credit to satisfy international third-party vendors which require such backing before confirming purchase orders issued by the Company and to support U.S. dollar foreign exchange forward contract purchases. The Company rarely uses such credit facilities for other purposes. The committed operating lines of credit are recorded when the Company considers it probable that a payment has to be made to the other party of the contract. The Company has recorded no liability with respect to these commitments. The reduction in the commitments under the operating lines of credit reflects the Company's initiative to change payment settlement from documentary letters of credit towards open 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.

As of November 6, 2017 the Company had fully repaid all its long-term debt. The Company paid $0.20 dividends per share in fiscal 2018 totalling $12.7 million, similar to 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 fiscal 2018, the Company invested $27 million in capital expenditures, on a cash basis, primarily on new and renovated stores. In fiscal 2019, the Company expects to invest approximately $30 million in capital expenditures. These expenditures, together with the payment of dividends and any repayments related to the Company's bank credit facility 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

The following table sets forth the Company's financial commitments, excluding trade and other payables, as at February 3, 2018:

	TOTAL	WITHIN 1 YEAR	2 TO 4 YEARS	5 YEARS AND OVER
Contractual Obligations				
Store & office operating leases[1]	$ 271	$ 76	$ 147	$ 48
Purchase obligations[2]	117	114	3	–
Other operating leases[3]	8	5	3	–
Total contractual obligations	**$ 396**	**$ 195**	**$ 153**	**$ 48**

[1] Represents the minimum lease payments under long-term leases for store locations and office space.
[2] Includes amounts pertaining to agreements to purchase goods or services that are enforceable and legally binding on the Company.
[3] Includes lease payments for computer equipment, automobiles and office equipment.

As at February 3, 2018, the Company's pension liability has not been included in the table above as the timing and amount of future payments are uncertain.

OUTSTANDING SHARE DATA

At April 4, 2018, 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 2,331,600 share options outstanding at an average exercise price of $7.87. 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.

For fiscal 2018 and 2017, the Company did not purchase any shares under a normal course issuer bid.

In December 2017, the Company received approval from the Toronto Stock Exchange to proceed with a normal course issuer bid. Under the bid, the Company may purchase up to 3,282,764 Class A non-voting shares of the Company, representing 10% of the public float of the issued and outstanding Class A non-voting shares as at December 5, 2017. The bid commenced on December 19, 2017 and may continue to December 18, 2018.

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 February 3, 2018 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 major Canadian chartered banks. The Company does not use derivative financial instruments for speculative purposes.

RELATED PARTY TRANSACTIONS

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity – directly or indirectly. The definition of key management personnel includes directors (both executive and non-executive). The Board of Directors (which includes the Chief Executive Officer and President) and the Chief Operating Officer have the responsibility for planning, directing and controlling the activities of the Company and are considered key management personnel. The Directors participate in the share option plan, as described in note 15 to the audited consolidated financial statements for fiscal 2018.

Compensation expense for key management personnel is as follows:

	FOR THE FISCAL YEARS ENDED	
	FEBRUARY 3, 2018	JANUARY 28, 2017
Salaries, Directors' fees and short-term benefits	**$ 2.9**	$ 3.1
Share-based compensation costs	**0.1**	0.4
	$ 3.0	$ 3.5

Further information about the remuneration of individual Directors is provided in the annual Management Proxy Circular.

OTHER RELATED-PARTY TRANSACTIONS

The Company leased two retail locations during the year which were owned by companies controlled by the major shareholders of the Company. For fiscal 2018, the rent expense under these leases was, in the aggregate, $0.2 million (fiscal 2017 – $0.2 million). Effective November 2017, the leased locations are no longer owned by companies controlled by the major shareholders of the Company.

The Company incurred $0.3 million in fiscal 2018 (fiscal 2017 – $0.4 million) with professional service firms connected to certain members of the Board of Directors of the Company for fees in conjunction with general legal advice and other consultation.

These transactions are recorded at the amount of consideration paid as established and agreed to by the related parties.

FINANCIAL INSTRUMENTS

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

For further disclosure of the Company's financial instruments, their classification, their impact on financial statements, and determination of fair value refer to Note 23 of the audited consolidated financial statements for fiscal 2018.

CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the consolidated 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.

Following are the most important accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

KEY SOURCES OF ESTIMATION UNCERTAINTY

PENSION PLANS

The cost of defined benefit pension plans is determined by means of actuarial valuations, which involve making assumptions about discount rates, future salary increases, mortality rates and the future increases in pensions. Because of the long-term nature of the plans, such estimates are subject to a high degree of uncertainty.

GIFT CARDS / LOYALTY POINTS AND AWARDS

Gift cards sold are recorded as deferred revenue and revenue is recognized when the gift cards are redeemed. An estimate is made of gift cards not expected to be redeemed based on the terms of the gift cards and historical redemption patterns. Loyalty points and awards granted under customer loyalty programs are recognized as a separate component of revenue and are deferred at the date of initial sale. Revenue is recognized when the loyalty points and awards are redeemed and the Company has fulfilled its obligation. The amount of revenue deferred is measured based on the fair value of loyalty points and awards granted, taking into consideration the estimated redemption percentage.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess inventory are made. The Company has set up provisions for merchandise in inventory that may have to be sold below cost. For this purpose, the Company has developed assumptions regarding the quantity of merchandise sold below cost.

ASSET IMPAIRMENT

The Company must assess the possibility that the carrying amounts of tangible and intangible assets (including goodwill) may not be recoverable. Impairment testing is performed whenever there is an indication of impairment, except for goodwill and intangible assets with indefinite useful lives for which impairment testing is performed at least once per year. 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. Differences in estimates could affect whether tangible and intangible assets (including goodwill) are in fact impaired and the dollar amount of that impairment.

JUDGMENTS

FINANCIAL INSTRUMENTS

The Company does not separately account for embedded U.S. dollar foreign exchange derivatives in its purchase contracts of merchandise from suppliers where it has determined the U.S. dollar to be commonly used in that country's economic environment.

OPERATING SEGMENTS

The Company uses judgment in assessing the criteria used to determine the aggregation of operating segments. In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, *Operating Segments*, which includes the identification of the Chief Operating Decision Maker ("CODM"), being the Chief Executive Officer, the identification of operating segments and the aggregation of operating segments. The Company's operating segments, before aggregation, have been identified as the Company's six banners: Reitmans, Penningtons, Addition Elle, RW & CO., Thyme Maternity and Hyba. Each operating segment is reviewed by the CODM in reviewing their profitability so that the information can be used to ensure adequate resources are allocated to that part of the Company's operations. The Company has aggregated its operating segments into one reportable segment on the basis of their similar economic characteristics, customers (mainly female) and nature of products (mainly ladies' specialty apparel). The similarity in economic characteristics reflects the fact that the Company's operating segments operate mainly in the ladies' apparel business, primarily in Canada and are therefore subject to the same economic market pressures. The Company's operating segments are subject to similar competitive pressures such as price and product innovation and assortment from existing competitors and new entrants into the marketplace. The operating segments also share centralized, common functions such as distribution and IT.

NEW ACCOUNTING POLICIES ADOPTED IN FISCAL 2018

The new accounting policy set out below has been adopted in the audited consolidated financial statements for fiscal 2018:

- Disclosure Initiative (Amendments to IAS 7)

Further information on this new accounting policy can be found in Note 3 of the audited 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 year ended February 3, 2018 and have not been applied in preparing the audited consolidated financial statements for fiscal 2018. 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 audited consolidated financial statements for fiscal 2018.

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.

As required by *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at February 3, 2018.

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.

As required by NI 52-109, the CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in *Internal Control – Integrated Framework (COSO Framework)* published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at February 3, 2018.

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 in the fourth quarter of 2018 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

OUTLOOK

The Company is well positioned for the future with recognizable banners each offering a powerful, positive brand experience able to capitalize on a strong network of stores and an exceptional e-commerce proposition. A variety of measures have been implemented to improve profitability, including enhancing the product offerings, tighter inventory management and improving the customer experience both in stores and online. Significant resources have been deployed to ensure that strategic initiatives supporting the changing consumer shopping behaviours are successful in responding to consumer demands. The Company's wholesale operations continue to grow and provide exciting opportunities in the U.S. marketplace with a wide variety of retailers showing interest in product offerings.

The retail industry and consumer shopping behaviours are changing faster than ever before 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.

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all the information in the annual report are the responsibility of management and have been approved by the Board of Directors of Reitmans (Canada) Limited.

These consolidated financial statements have been prepared by management in conformity with International Financial Reporting Standards and include amounts that are based on best estimates and judgments. The financial information used elsewhere in the annual report is consistent with that in the consolidated financial statements.

Management of the Company has developed and maintains a system of internal accounting controls. Management believes that this system of internal accounting controls provides reasonable assurances that financial records are reliable and form a proper basis for the preparation of the consolidated financial statements and that assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements in this annual report principally through its Audit Committee, consisting of all outside directors. The Audit Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors. The auditors appointed by the shareholders have full access to the Audit Committee, with and without management being present.

These consolidated financial statements have been audited by the auditors appointed by the shareholders, KPMG LLP, and their report is presented hereafter.

(signed)

Jeremy H. Reitman

Chairman and
Chief Executive Officer

(signed)

Eric Williams, CPA, CA

Vice-President, Finance and
Chief Financial Officer

April 4, 2018

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Reitmans (Canada) Limited

We have audited the accompanying consolidated financial statements of Reitmans (Canada) Limited, which comprise the consolidated balance sheets as at February 3, 2018 and January 28, 2017, the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Reitmans (Canada) Limited as at February 3, 2018 and January 28, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed)

Montreal, Canada
April 4, 2018

* CPA auditor, CA, public accountancy Permit No. A122264

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

CONSOLIDATED STATEMENTS OF EARNINGS

FOR THE YEARS ENDED FEBRUARY 3, 2018 AND JANUARY 28, 2017
(IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS)

	Notes	2018	2017
Sales		**$ 963,958**	$ 951,989
Cost of goods sold	5	**440,070**	429,606
Gross profit		**523,888**	522,383
Selling and distribution expenses		**482,479**	478,541
Administrative expenses		**42,714**	42,824
Impairment of goodwill	8	**26,340**	–
Results from operating activities		**(27,645)**	1,018
Finance income	17	**11,009**	12,820
Finance costs	17	**399**	2,716
(Loss) earnings before income taxes		**(17,035)**	11,122
Income tax (recovery) expense	9	**(724)**	190
Net (loss) earnings		**$ (16,311)**	$ 10,932
(Loss) earnings per share:	18		
Basic		**$ (0.26)**	$ 0.17
Diluted		**(0.26)**	0.17

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED FEBRUARY 3, 2018 AND JANUARY 28, 2017
(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	2018	2017
Net (loss) earnings		**$ (16,311)**	$ 10,932
Other comprehensive loss			
Items that may be reclassified subsequently to net earnings:			
Cash flow hedges (net of tax of $1,658; 2017 – $2,889)	14	**(4,513)**	(7,924)
Foreign currency translation differences	14	**259**	203
		(4,254)	(7,721)
Items that will not be reclassified to net earnings:			
Actuarial gain on defined benefit plan (net of tax of $60; 2017 – $384)	13	**197**	1,039
Total other comprehensive loss		**(4,057)**	(6,682)
Total comprehensive (loss) income		**$ (20,368)**	$ 4,250

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

CONSOLIDATED BALANCE SHEETS

AS AT FEBRUARY 3, 2018 AND JANUARY 28, 2017
(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	2018	2017
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	**$ 104,656**	$ 120,265
Marketable securities	23	**62,025**	54,764
Trade and other receivables		**4,880**	4,256
Derivative financial asset	23	**37**	1,386
Income taxes recoverable		**2,248**	3,480
Inventories	5	**136,049**	146,059
Prepaid expenses		**19,187**	6,846
Total Current Assets		**329,082**	337,056
NON-CURRENT ASSETS			
Property and equipment	6	**110,292**	124,106
Intangible assets	7	**19,433**	23,110
Goodwill	8	**11,843**	38,183
Deferred income taxes	9	**28,441**	25,891
Total Non-Current Assets		**170,009**	211,290
TOTAL ASSETS		**$ 499,091**	$ 548,346
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade and other payables	10	**$ 92,655**	$ 114,254
Derivative financial liability	23	**9,745**	3,160
Deferred revenue	11	**21,577**	21,478
Current portion of long-term debt	12	**–**	1,655
Total Current Liabilities		**123,977**	140,547
NON-CURRENT LIABILITIES			
Other payables	10	**8,598**	7,186
Deferred lease credits		**6,450**	8,230
Pension liability	13	**19,236**	18,869
Total Non-Current Liabilities		**34,284**	34,285
SHAREHOLDERS' EQUITY			
Share capital	14	**38,397**	38,397
Contributed surplus		**10,119**	9,769
Retained earnings		**297,895**	326,675
Accumulated other comprehensive loss	14	**(5,581)**	(1,327)
Total Shareholders' Equity		**340,830**	373,514
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 499,091**	$ 548,346

Commitments (note 16)

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

On behalf of the Board,

(signed) (signed)

Jeremy H. Reitman, Director — Bruce J. Guerriero, Director

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED FEBRUARY 3, 2018 AND JANUARY 28, 2017
(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	SHARE CAPITAL	CONTRIBUTED SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
Balance as at January 29, 2017		**$ 38,397**	**$ 9,769**	**$ 326,675**	**$ (1,327)**	**$ 373,514**
Net loss		**–**	**–**	**(16,311)**	**–**	**(16,311)**
Total other comprehensive income (loss)	13,14	**–**	**–**	**197**	**(4,254)**	**(4,057)**
Total comprehensive loss for the year		**–**	**–**	**(16,114)**	**(4,254)**	**(20,368)**
Share-based compensation costs	15	**–**	**350**	**–**	**–**	**350**
Dividends	14	**–**	**–**	**(12,666)**	**–**	**(12,666)**
Total contributions by (distributions to) owners of the Company		**–**	**350**	**(12,666)**	**–**	**(12,316)**
Balance as at February 3, 2018		**$ 38,397**	**$ 10,119**	**$ 297,895**	**$ (5,581)**	**$ 340,830**
Balance as at January 31, 2016		$ 38,397	$ 9,007	$ 327,370	$ 6,394	$ 381,168
Net earnings		–	–	10,932	–	10,932
Total other comprehensive income (loss)	13,14	–	–	1,039	(7,721)	(6,682)
Total comprehensive income (loss) for the year		–	–	11,971	(7,721)	4,250
Share-based compensation costs	15	–	762	–	–	762
Dividends	14	–	–	(12,666)	–	(12,666)
Total contributions by (distributions to) owners of the Company		–	762	(12,666)	–	(11,904)
Balance as at January 28, 2017		$ 38,397	$ 9,769	$ 326,675	$ (1,327)	$ 373,514

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED FEBRUARY 3, 2018 AND JANUARY 28, 2017
(IN THOUSANDS OF CANADIAN DOLLARS)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) earnings		**$ (16,311)**	$ 10,932
Adjustments for:			
Depreciation, amortization and net impairment losses	6,7	**44,940**	44,249
Impairment of goodwill	8	**26,340**	–
Share-based compensation costs	15	**(165)**	1,277
Net change in fair value of marketable securities	17	**(7,261)**	(9,575)
Net change in transfer of realized loss on cash flow hedges to inventory		**1,764**	3,549
Foreign exchange loss		**5,740**	3,915
Interest and dividend income, net	17	**(3,700)**	(3,075)
Income tax (recovery) expense	9	**(724)**	190
		50,623	51,462
Changes in:			
Trade and other receivables		**(631)**	(71)
Inventories		**10,010**	(21,211)
Prepaid expenses		**(12,341)**	2,075
Trade and other payables		**(20,123)**	15,877
Pension liability	13	**624**	956
Deferred lease credits		**(1,780)**	(2,410)
Deferred revenue		**99**	2,153
		26,481	48,831
Interest paid	17	**(48)**	(170)
Interest received		**1,247**	706
Dividends received		**2,508**	2,457
Income taxes received		**1,012**	2,511
Income taxes paid		**(8)**	(438)
Net cash flows from operating activities		**31,192**	53,897
CASH FLOWS USED IN INVESTING ACTIVITIES			
Additions to property and equipment and intangible assets	6,7	**(26,998)**	(34,370)
Proceeds on disposal of property and equipment and intangibles	6,7	**–**	416
Cash flows used in investing activities		**(26,998)**	(33,954)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends paid	14	**(12,666)**	(12,666)
Repayment of long-term debt	12,22	**(1,655)**	(1,896)
Cash flows used in financing activities		**(14,321)**	(14,562)
FOREIGN EXCHANGE LOSS ON CASH HELD IN FOREIGN CURRENCY		**(5,482)**	(3,711)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(15,609)**	1,670
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR		**120,265**	118,595
CASH AND CASH EQUIVALENTS, END OF THE YEAR		**$ 104,656**	$ 120,265

Supplementary cash flow information (note 22)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 3, 2018 AND JANUARY 28, 2017
(ALL AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS)

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 | FISCAL YEAR

The Company's fiscal year ends on the Saturday closest to the end of January. All references to 2018 and 2017 represent the fiscal years ended February 3, 2018 and January 28, 2017, respectively. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The year ended February 3, 2018 includes 53 weeks instead of the normal 52 weeks. The inclusion of an extra week occurs every fifth or sixth fiscal year due to the Company's floating year-end date.

B | STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Certain comparative figures have been reclassified to conform to the current year's presentation.

These consolidated financial statements were authorized for issue by the Board of Directors on April 4, 2018.

C | BASIS OF MEASUREMENT

These consolidated 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*.

D | FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated 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 consolidated 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.

Following are the most important accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position.

KEY SOURCES OF ESTIMATION UNCERTAINTY

I) PENSION PLANS

The cost of defined benefit pension plans is determined by means of actuarial valuations, which involve making assumptions about discount rates, future salary increases, mortality rates and the future increases in pensions. Because of the long-term nature of the plans, such estimates are subject to a high degree of uncertainty.

II) GIFT CARDS / LOYALTY POINTS AND AWARDS

Gift cards sold are recorded as deferred revenue and revenue is recognized when the gift cards are redeemed. An estimate is made of gift cards not expected to be redeemed based on the terms of the gift cards and historical redemption patterns. Loyalty points and awards granted under customer loyalty programs are recorded as deferred revenue at the date of initial sale. Revenue is recognized when the loyalty points and awards are redeemed and the Company has fulfilled its obligation. The amount of revenue deferred is measured based on the fair value of loyalty points and awards granted, taking into consideration the estimated redemption percentage.

III) INVENTORIES

Inventories are valued at the lower of cost and net realizable value. Estimates are required in relation to forecasted sales and inventory balances. In situations where excess inventory balances are identified, estimates of net realizable values for the excess inventory are made. The Company has set up provisions for merchandise in inventory that may have to be sold below cost. For this purpose, the Company has developed assumptions regarding the quantity of merchandise sold below cost.

IV) ASSET IMPAIRMENT

The Company must assess the possibility that the carrying amounts of tangible and intangible assets (including goodwill) may not be recoverable. Impairment testing is performed whenever there is an indication of impairment, except for goodwill and intangible assets with indefinite useful lives for which impairment testing is performed at least once per year. 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. Differences in estimates could affect whether tangible and intangible assets (including goodwill) are in fact impaired and the dollar amount of that impairment.

JUDGMENTS MADE IN RELATION TO ACCOUNTING POLICIES APPLIED

I) FINANCIAL INSTRUMENTS

The Company does not separately account for embedded U.S. dollar foreign exchange derivatives in its purchase contracts of merchandise from suppliers where it has determined the U.S. dollar to be commonly used in that country's economic environment.

JUDGMENTS MADE IN RELATION TO DETERMINING THE AGGREGATION OF OPERATING SEGMENTS

I) OPERATING SEGMENTS

The Company uses judgment in assessing the criteria used to determine the aggregation of operating segments. In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, *Operating Segments*, which includes the identification of the Chief Operating Decision Maker ("CODM"), being the Chief Executive Officer, the identification of operating segments and the aggregation of operating segments. The Company's operating segments, before aggregation, have been identified as the Company's six banners: Reitmans, Penningtons, Addition Elle, RW & CO., Thyme Maternity and Hyba. Each operating segment is reviewed by the CODM in reviewing their profitability so that the information can be used to ensure adequate resources are allocated to that part of the Company's operations. The Company has aggregated its operating segments into one reportable segment on the basis of their similar economic characteristics, customers (mainly female) and nature of products (mainly ladies' specialty apparel). The similarity in economic characteristics reflects the fact that the Company's operating segments operate mainly in the ladies' apparel business, primarily in Canada and are therefore subject to the same economic market pressures. The Company's operating segments are subject to similar competitive pressures such as price and product innovation and assortment from existing competitors and new entrants into the marketplace. The operating segments also share centralized, common functions such as distribution and information technology.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

A | ADOPTION OF NEW ACCOUNTING POLICIES

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 were applicable for the annual period beginning on or after January 1, 2017. The Company has adopted this disclosure requirement in these consolidated financial statements, see note 22.

B | NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended February 3, 2018 and have not been applied in preparing these consolidated 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 does not intend to early adopt IFRS 16.

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.

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 became effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Company has completed the assessment of significant contracts with customers and has determined the preliminary expected impacts of the adoption of IFRS 15 on its consolidated financial statements.

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 implementation of IFRS 15 will also 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 expects the adoption of IFRS 15 will increase its retained earnings by approximately $0.8 million, after tax, as at January 29, 2017, in relation to revenue that is deferred due to its customer loyalty award programs and gift cards sold.

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. The Company expects this change to result in an increase in current assets and current liabilities of approximately $1 million as at January 29, 2017.

Overall, the Company does not expect the implementation of IFRS 15 to have a significant impact on its revenue. The Company continues to assess the impact of the disclosure requirements under IFRS 15 on the Company's consolidated financial statements.

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.

C | BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The Company reassesses control on an ongoing basis. Subsidiaries are consolidated from the date on which the Company obtains control until the date that such control ceases. The financial statements of subsidiaries are prepared with the same reporting period of the Company. The accounting policies of subsidiaries are aligned with the policies of the Company. All significant inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, have been eliminated in preparing the consolidated financial statements.

D | FOREIGN CURRENCY TRANSLATION

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Other balance sheet items denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the respective transaction dates. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at average rates of exchange prevailing during the period. The resulting gains or losses on translation are included in the determination of net earnings.

E | FOREIGN OPERATIONS

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

F | CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, bank balances and short-term deposits with original maturities of three months or less.

G | PROPERTY AND EQUIPMENT

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is recognized in net earnings on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Land is not depreciated. Leasehold improvements are depreciated over the lesser of the estimated useful life of the asset and the lease term. Assets not in service include expenditures incurred to-date for equipment not yet available for use. Depreciation of assets not in service begins when they are ready for their intended use. Depreciation is calculated on the cost of an asset, less its residual value.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	10 to 50 years
Fixtures and equipment	3 to 20 years
Leasehold improvements	6.7 years

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted prospectively, if appropriate.

Gains and losses on disposal of items of property and equipment are recognized in net earnings.

H | GOODWILL

Goodwill is measured at the acquisition date as the fair value of the consideration transferred less the net identifiable assets of the acquired company or business activities. Goodwill is not amortized and is carried at cost less accumulated impairment losses.

I | INTANGIBLE ASSETS

Intangible assets are comprised of software and acquired trademarks and their useful lives are assessed to be either finite or indefinite.

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated on the cost of the asset less its residual value. Amortization is recognized in net earnings on a straight-line basis over the estimated useful lives of the intangible assets. Amortization of intangible assets not in service begins when they are ready for their intended use. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The estimated useful lives for the current and comparative periods are as follows:

Software	3 to 5 years

Amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted prospectively, if appropriate.

Intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset may be impaired. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Trademarks are considered to have indefinite useful lives.

J | LEASED ASSETS

Leases are classified as either operating or finance, based on the substance of the transaction at inception of the lease. Classification is re-assessed if the terms of the lease are changed.

Leases in which a significant portion of the risks and rewards of ownership are not assumed by the Company are classified as operating leases. The Company carries on its operations in premises under leases of varying terms, which are accounted for as operating leases. Payments under an operating lease are recognized in net earnings on a straight-line basis over the term of the lease. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and, consequently, records the difference between the recognized rental expense and the amounts payable under the lease as deferred rent, which is included in trade and other payables. Contingent (sales-based) rentals are recognized in net earnings in the period in which they are incurred.

Tenant allowances are recorded as deferred lease credits and amortized as a reduction of rent expense over the term of the related leases.

K | INVENTORIES

Merchandise inventories are measured at the lower of cost, determined on an average basis, and net realizable value. Costs include the cost of purchase, transportation costs that are directly incurred to bring inventories to their present location and condition, and certain distribution centre costs related to inventories. The Company estimates net realizable value as the amount that inventories are expected to be sold, in the ordinary course of business, less the estimated costs necessary to make the sale, taking into consideration fluctuations of retail prices due to seasonality.

L | IMPAIRMENT

I) NON-FINANCIAL ASSETS

All non-financial assets are reviewed at each reporting date for indications that the carrying amount may not be recoverable. When there is evidence of impairment, an impairment test is carried out. Goodwill is tested for impairment at least annually at the year-end reporting date, and whenever there is an indication that the asset may be impaired. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (defined as “cash-generating unit” or “CGU”). Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amount of the other assets in the CGU.

An impairment loss is recognized in net earnings if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs to sell. The value in use is the present value of estimated future cash flows, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The fair value less costs to sell is the amount for which an asset or CGU can be sold in a transaction under normal market conditions between knowledgeable and willing contracting parties, less costs to sell.

For the purpose of impairment testing of property and equipment, each store is managed at the corporate level, with internal reporting organized to measure performance of each retail store. Management has determined that its cash generating units are identifiable at the individual retail store level since the assets devoted to and cash inflows generated by each store are separately identifiable and independent of each other.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the combination. This allocation reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Company’s corporate assets do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGUs to which the corporate asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

M | EMPLOYEE BENEFITS

I) PENSION BENEFIT PLANS

The Company maintains a contributory defined benefit plan ("Plan") that provides benefits to Reitmans (Canada) Limited (the "Employer") executive employees based on length of service and average earnings in the best five consecutive years of employment. Contributions are made by the Plan members and Employer. A Pension Committee, as appointed under the provisions of the Plan, is responsible for the administration of the Plan. All the investments of the Plan are deposited with RBC Investors Services Trust, which acts as the custodian of the assets entrusted to it. The investment manager of the Plan's investments is SEI Investments Canada Company. The Company also sponsors a Supplemental Executive Retirement Plan ("SERP") for certain senior executives, which is neither registered nor pre-funded. The costs of these retirement benefit plans are determined periodically by independent actuaries.

Benefits are also given to employees through defined contribution plans administered by the Federal and Québec governments. Company contributions to these plans are recognized in the periods when the services are rendered.

The Company's net liability in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits that Plan members have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

Defined benefit obligations are actuarially calculated annually by a qualified actuary as at the reporting date. The actuarial valuations are determined based on management's best estimate of the discount rate, the rate of compensation increase, retirement rates, termination rates and mortality rates. The discount rate used to value the net defined benefit obligation for accounting purposes is based on the yield on a portfolio of Corporate AA bonds denominated in the same currency in which the benefits are expected to be paid and with terms to maturity that, on average, match the terms of the defined benefit plan obligations.

The fair value of plan assets is deducted from the defined benefit obligation to arrive at the net liability. Plan assets are measured at fair value as at the reporting date. Past service costs arising from plan amendments are recognized in net earnings in the period that they arise.

Remeasurements of the net defined benefit liability, which comprise actuarial gains or losses, the return on plan assets, excluding interest, and the effect of the asset ceiling, if any, are recognized in other comprehensive income in the period in which they arise and subsequently reclassified from accumulated other comprehensive income to retained earnings.

Pension expense consists of the following:

- the cost of pension benefits provided in exchange for Plan members' services rendered in the period;
- net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the net defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments;
- past service costs; and
- gains or losses on settlements or curtailments.

Expenses related to defined contribution plans are recognized in net earnings in the periods in which the services are rendered.

II) SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits obligations, which include wages, salaries, compensated absences and bonuses, are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonuses or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

III) TERMINATION BENEFITS

Termination benefits are recognized as an expense at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. Benefits payable are discounted to their present value when the effect of the time value of money is material.

IV) SHARE-BASED COMPENSATION

SHARE OPTIONS (EQUITY-SETTLED)

Share options are equity-settled share-based payments. The fair value of each tranche of options granted is measured separately at the grant date using a Black-Scholes option pricing model. Estimating fair value requires determining the most appropriate inputs to the valuation model including making assumptions for the expected life, volatility, risk-free interest rate and dividend yield. Compensation cost is expensed over the award's respective vesting period which is normally up to four or five years. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met. Compensation expense is recognized in net earnings with a corresponding increase in contributed surplus. Any consideration paid by plan participants on the exercise of share options is credited to share capital. Upon the exercise of share options, the corresponding amounts previously credited to contributed surplus are transferred to share capital.

SHARE APPRECIATION RIGHTS (CASH-SETTLED)

On June 8, 2016, the Company amended its share option plan. The amended plan includes a Share Appreciation Rights ("SARs") plan that entitles 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. A liability is recognized for the services acquired and is recorded at the fair value of the SARs in other non-current payables, except for the current portion recorded in trade and other payables, with a corresponding expense recognized in selling and distribution and/or administrative expenses, over the period that the employees become unconditionally entitled to the payment. The fair value of the employee benefits expense of the SARs is measured using the Black-Scholes pricing model. Estimating fair value requires determining the most appropriate inputs to the valuation model including making assumptions for the expected life of the SARs, volatility, risk-free interest rate and dividend yield. At the end of each reporting period until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognized in the consolidated statements of earnings for the period.

PERFORMANCE SHARE UNITS (CASH-SETTLED)

In the year ended January 28, 2017, the Company implemented a Performance Share Units plan entitling executives and key management to a cash payment. A liability is recognized for the services acquired and is recorded at fair value based on the share price of the Company's Common shares in other non-current payables, except for the current portion recorded in trade and other payables, with a corresponding expense recognized in employee benefits expense in selling and distribution and/or administrative expenses. The amount recognized as an expense is adjusted to reflect the number of units for which the related service and performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the units of awards that meet the related service and non-market performance conditions at the vesting date. At the end of each reporting period until the liability is settled, the fair value of the liability is remeasured, with any changes in fair value recognized in the consolidated statements of earnings for the period.

N | PROVISIONS

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the unwinding of the discount is recognized as finance cost.

An onerous contract provision is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before an onerous contract provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

O | REVENUE

Revenue is recognized from the sale of merchandise when a customer purchases and takes delivery of the merchandise. Reported sales are net of returns and estimated possible returns and exclude sales taxes.

Gift cards sold are recorded as deferred revenue and revenue is recognized when the gift cards are redeemed. An estimate is made of gift cards not expected to be redeemed based on the terms of the gift cards and historical redemption patterns.

Loyalty points and awards granted under customer loyalty programs are recorded as deferred revenue at the date of initial sale. Revenue is recognized when the loyalty points and awards are redeemed and the Company has fulfilled its obligation. The amount of revenue deferred is measured based on the fair value of loyalty points and awards granted, taking into consideration the estimated redemption percentage.

P | FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest and dividend income, net gains in the fair value of marketable securities, as well as foreign exchange gains. Finance costs comprise interest expense, net losses in the fair value of marketable securities, as well as foreign exchange losses. Interest income is recognized on an accrual basis and interest expense is recorded using the effective interest method. Dividend income is recognized when the right to receive payment is established. Foreign exchange gains and losses are reported on a net basis.

Q | INCOME TAX

Income tax expense comprises current and deferred taxes. Current income taxes and deferred income taxes are recognized in net earnings except for items recognized directly in equity or in other comprehensive income.

The Company's income tax expense is based on tax rules and regulations that are subject to interpretation and require estimates and assumptions that may be challenged by taxation authorities. Current income tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years. The Company's estimates of current income tax assets and liabilities are periodically reviewed and adjusted as circumstances warrant, such as for changes to tax laws and administrative guidance, and the resolution of uncertainties through either the conclusion of tax audits or expiration of prescribed time limits within the relevant statutes. The final results of government tax audits and other events may vary materially compared to estimates and assumptions used by management in determining the income tax expense and in measuring current income tax assets and liabilities.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is included in net earnings in the period that includes the enactment date, except to the extent that it relates to an item recognized either in other comprehensive income or directly in equity in the current or in a previous period.

The Company only offsets income tax assets and liabilities if it has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are recognized on the consolidated balance sheets under non-current assets or liabilities, irrespective of the expected date of realization or settlement.

R | EARNINGS PER SHARE

The Company presents basic and diluted earnings per share ("EPS") data for its shares.

Basic EPS is calculated by dividing the net earnings of the Company by the weighted average number of Class A non-voting and Common shares outstanding during the period.

Diluted EPS is determined by adjusting the weighted average number of shares outstanding to include additional shares issued from the assumed exercise of share options, if dilutive. The number of additional shares is calculated by assuming that the proceeds from such exercises, as well as the amount of unrecognized share-based compensation, are used to purchase Class A non-voting shares at the average market share price during the reporting period.

S | SHARE CAPITAL

Class A non-voting shares and Common shares are classified as equity. Incremental costs directly attributable to the issue of these shares and share options are recognized as a deduction from equity, net of any tax effects.

When share capital recognized as equity is purchased for cancellation, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. The excess of the purchase price over the carrying amount of the shares is charged to retained earnings.

T | FINANCIAL INSTRUMENTS

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

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

I) FINANCIAL ASSETS MEASURED AT AMORTIZED COST

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

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

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

II) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("OCI")

A financial asset is measured at fair value through OCI if it meets both of the following conditions and is not designated as measured at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

III) IMPAIRMENT OF FINANCIAL ASSETS

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

IV) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

V) FINANCIAL LIABILITIES ARE CLASSIFIED INTO THE FOLLOWING CATEGORIES

FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST:

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

FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS:

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

VI) NON-HEDGE DERIVATIVE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

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

VII) HEDGING RELATIONSHIPS

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

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

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

CASH FLOW HEDGES

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

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

U | FAIR VALUE MEASUREMENT

When measuring the fair value of an asset or liability the Company uses observable market data whenever available. Fair values are classified within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value estimates are made at a specific point in time, using available information about the asset or liability. These estimates are subjective in nature and often cannot be determined with precision. There was no change in the valuation techniques applied to financial instruments during the current year. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

I) FINANCIAL ASSETS

The Company has determined that the carrying amount of its short-term financial assets approximates fair value at the reporting date due to the short-term maturity of these instruments. The fair value of the Company's marketable securities is determined by reference to their quoted closing prices in active markets at the reporting date, which is considered a Level 1 input in the fair value hierarchy.

II) NON-DERIVATIVE FINANCIAL LIABILITIES

The fair value of the Company's long-term debt bearing interest at a fixed rate (outstanding at January 28, 2017), which is determined for disclosure purposes, is calculated using the present value of future payments of principal and interest discounted at the current market rates of interest available to the Company for the same or similar debt instruments with the same remaining maturity, which is considered Level 2 input in the fair value hierarchy.

III) DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of foreign currency option contracts is determined through a standard option valuation technique used by the counterparty based on Level 2 inputs.

4 CASH AND CASH EQUIVALENTS

	FEBRUARY 3, 2018	JANUARY 28, 2017
Cash	**$ 104,656**	$ 107,767
Short-term deposits	**–**	12,498
	$ 104,656	$ 120,265

The Company's cash held with banks bears interest at variable rates. Short-term deposits at January 28, 2017 were bearing interest at 0.7%.

5 INVENTORIES

During the year ended February 3, 2018, inventories recognized as cost of goods sold amounted to $428,482 (January 28, 2017 – $415,927). In addition, the Company recorded $11,588 (January 28, 2017 – $13,679) of inventory write-downs 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 PROPERTY AND EQUIPMENT

	LAND	BUILDINGS	FIXTURES AND EQUIPMENT	LEASEHOLD IMPROVEMENTS	TOTAL
Cost					
Balance at January 31, 2016	$ 5,860	$ 42,347	$ 121,747	$ 121,427	$ 291,381
Additions	–	781	18,101	8,528	27,410
Disposals	–	(2,946)	(17,699)	(23,342)	(43,987)
Balance at January 28, 2017	$ 5,860	$ 40,182	$ 122,149	$ 106,613	$ 274,804
Balance at January 29, 2017	**$ 5,860**	**$ 40,182**	**$ 122,149**	**$ 106,613**	**$ 274,804**
Additions	**–**	**695**	**15,096**	**7,574**	**23,365**
Disposals	**–**	**(3,059)**	**(21,965)**	**(17,417)**	**(42,441)**
Balance at February 3, 2018	**$ 5,860**	**$ 37,818**	**$ 115,280**	**$ 96,770**	**$ 255,728**
Accumulated depreciation and impairment losses					
Balance at January 31, 2016	$ –	$ 17,682	$ 66,028	$ 73,308	$ 157,018
Depreciation	–	1,683	18,573	15,954	36,210
Impairment loss	–	–	–	1,816	1,816
Reversal of impairment loss	–	–	–	(775)	(775)
Disposals	–	(2,946)	(17,550)	(23,075)	(43,571)
Balance at January 28, 2017	$ –	$ 16,419	$ 67,051	$ 67,228	$ 150,698
Balance at January 29, 2017	**$ –**	**$ 16,419**	**$ 67,051**	**$ 67,228**	**$ 150,698**
Depreciation	**–**	**1,532**	**17,778**	**13,930**	**33,240**
Impairment loss	**–**	**–**	**686**	**3,749**	**4,435**
Reversal of impairment loss	**–**	**–**	**–**	**(496)**	**(496)**
Disposals	**–**	**(3,059)**	**(21,965)**	**(17,417)**	**(42,441)**
Balance at February 3, 2018	**$ –**	**$ 14,892**	**$ 63,550**	**$ 66,994**	**$ 145,436**
Net carrying amounts					
At January 28, 2017	$ 5,860	$ 23,763	$ 55,098	$ 39,385	$ 124,106
At February 3, 2018	**$ 5,860**	**$ 22,926**	**$ 51,730**	**$ 29,776**	**$ 110,292**

During the year ended February 3, 2018, the Company tested for impairment certain items of property and equipment for which there were indications that their carrying amounts may not be recoverable and recognized an impairment loss of $4,435 (January 28, 2017 – $1,816). The impairment related to the property and equipment is due to the reduction in profitability at individual retail store locations (cash-generating units). A reversal of impairment occurs when previously impaired individual retail store locations see increased profitability. When determining the value in use of a retail location, the Company develops a discounted cash flow model for each CGU. 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 are based on actual operating results, industry's expected growth rates and management's experiences. The recoverable amounts of the CGUs tested for impairment were based on their value in use which was determined using a pre-tax discount rate of 14.5% (January 28, 2017 – 12%). During the year, $496 of impairment losses were reversed following an improvement in the profitability of certain CGUs (January 28, 2017 – $775).

Depreciation expense and net impairment losses for the year have been recorded in selling and distribution expenses for an amount of $35,987 (January 28, 2017 – $36,026) and in administrative expenses for an amount of $1,192 (January 28, 2017 – $1,225) in the consolidated statements of earnings.

Fixtures and equipment and leasehold improvements includes an amount of $1,220 (January 28, 2017 – $1,961) that is not being depreciated. Depreciation will begin when the assets are available for use.

7 INTANGIBLE ASSETS

	SOFTWARE	TRADEMARKS	TOTAL
Cost			
Balance at January 31, 2016	$ 35,261	$ 499	$ 35,760
Additions	5,761	–	5,761
Disposals	(648)	–	(648)
Balance at January 28, 2017	$ 40,374	$ 499	$ 40,873
Balance at January 29, 2017	**$ 40,374**	**$ 499**	**$ 40,873**
Additions	**4,084**	**–**	**4,084**
Disposals	**(10,708)**	**–**	**(10,708)**
Balance at February 3, 2018	**$ 33,750**	**$ 499**	**$ 34,249**
Accumulated amortization and impairment losses			
Balance at January 31, 2016	$ 10,914	$ 499	$ 11,413
Amortization	6,998	–	6,998
Disposals	(648)	–	(648)
Balance at January 28, 2017	$ 17,264	$ 499	$ 17,763
Balance at January 29, 2017	**$ 17,264**	**$ 499**	**$ 17,763**
Amortization	**7,590**	**–**	**7,590**
Impairment loss	**171**	**–**	**171**
Disposals	**(10,708)**	**–**	**(10,708)**
Balance at February 3, 2018	**$ 14,317**	**$ 499**	**$ 14,816**
Net carrying amounts			
At January 28, 2017	$ 23,110	$ –	$ 23,110
At February 3, 2018	**$ 19,433**	**$ –**	**$ 19,433**

The amortization of intangibles has been recorded in selling and distribution expenses for an amount of $7,467 (January 28, 2017 – $6,690) and in administrative expenses for an amount of $294 (January 28, 2017 – $308) in the consolidated statements of earnings.

Software includes an amount of $3,072 (January 28, 2017 – $3,525) that is not being amortized. Amortization will begin when the software is put into service.

8 GOODWILL

For the purpose of impairment testing, goodwill has been allocated to the group of 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 it may be impaired. In assessing whether goodwill allocated to the Addition Elle banner is impaired, the carrying amount of this group of CGUs is 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.

Given the decline in profitability of the Addition Elle banner as compared to forecasts and prior periods, the Company concluded that an impairment test was required as at October 28, 2017, in addition to its annual impairment which was performed as at February 3, 2018. The recoverable amount of the Addition Elle banner CGU as at October 28, 2017 and February 3, 2018 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 impairment test performed as at October 28, 2017, the Company recorded a goodwill impairment loss of $26,340. Based on the impairment test performed as at February 3, 2018, there was no further impairment.

As at January 28, 2017, the recoverable amount of the Addition Elle banner was based on fair value less costs to sell. The fair value less costs of disposal was based on market earnings multiples applied to normalized earnings. The market earnings multiples were based on external sources for comparable companies operating in similar industries. Normalized earnings were based on management's assessment of market trends taking into account historical data from internal and external sources. These assumptions are considered to be Level 3 in the fair value hierarchy.

Any adverse movement in the key assumptions noted above would lead to further impairment.

9 INCOME TAX

INCOME TAX (RECOVERY) EXPENSE

The Company's income tax (recovery) expense is comprised as follows:

	FOR THE YEARS ENDED FEBRUARY 3, 2018	JANUARY 28, 2017
Current tax expense (recovery)		
Current year	**$ 197**	$ (2,263)
Adjustment in respect of prior years	**31**	11
Current tax expense (recovery)	**228**	(2,252)
Deferred tax (recovery) expense		
Deferred tax (recovery) expense prior to adjustments	**(733)**	2,333
Changes in tax rates	**(219)**	109
Deferred tax (recovery) expense	**(952)**	2,442
Total income tax (recovery) expense	**$ (724)**	$ 190

INCOME TAX RECOGNIZED IN OTHER COMPREHENSIVE INCOME

	FOR THE YEARS ENDED FEBRUARY 3, 2018			JANUARY 28, 2017		
	BEFORE TAX	TAX RECOVERY (EXPENSE)	NET OF TAX	BEFORE TAX	TAX RECOVERY (EXPENSE)	NET OF TAX
Cash flow hedges	**$ (6,171)**	**$ 1,658**	**$ (4,513)**	$ (10,813)	$ 2,889	$ (7,924)
Defined benefit plan actuarial gains (losses)	**257**	**(60)**	**197**	1,423	(384)	1,039
	$ (5,914)	**$ 1,598**	**$ (4,316)**	$ (9,390)	$ 2,505	$ (6,885)

RECONCILIATION OF EFFECTIVE TAX RATE

	FOR THE YEARS ENDED			
	FEBRUARY 3, 2018		JANUARY 28, 2017	
(Loss) earnings before income taxes	**$ (17,035)**		$ 11,122	
Income tax using the Company's statutory tax rate	**(4,579)**	**26.88%**	2,975	26.76%
Changes in tax rates	**(219)**	**1.28%**	109	0.98%
Non-deductible expenses and other adjustments	**(882)**	**5.18%**	(966)	(8.69%)
Goodwill	**7,083**	**(41.58%)**	–	–
Change in unrecognized temporary differences	**(976)**	**5.73%**	(1,281)	(11.52%)
Tax exempt income	**(675)**	**3.96%**	(658)	(5.92%)
Effect of tax in foreign jurisdictions	**(507)**	**2.98%**	–	–
Adjustment in respect of prior years	**31**	**(0.18%)**	11	0.10%
	$ (724)	**4.25%**	$ 190	1.71%

RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	ASSETS		LIABILITIES		NET	
	FEBRUARY 3, 2018	JANUARY 28, 2017	FEBRUARY 3, 2018	JANUARY 28, 2017	FEBRUARY 3, 2018	JANUARY 28, 2017
Property, equipment and intangible assets	**$ 16,711**	$ 17,309	**$ –**	$ –	**$ 16,711**	$ 17,309
Inventories	**–**	–	**1,402**	1,831	**(1,402)**	(1,831)
Trade and other payables	**3,256**	2,755	**–**	–	**3,256**	2,755
Derivative financial asset and liability	**1,807**	148	**–**	–	**1,807**	148
Pension liability	**5,165**	5,021	**–**	–	**5,165**	5,021
Tax benefit of losses carried forward	**2,399**	2,144	**–**	–	**2,399**	2,144
Other	**505**	345	**–**	–	**505**	345
	$ 29,843	$ 27,722	**$ 1,402**	$ 1,831	**$ 28,441**	$ 25,891

CHANGES IN DEFERRED TAX BALANCES DURING THE YEAR

	BALANCE JANUARY 30, 2016	RECOGNIZED IN NET EARNINGS	RECOGNIZED IN OTHER COMPREHENSIVE INCOME	BALANCE JANUARY 28, 2017	RECOGNIZED IN NET EARNINGS	RECOGNIZED IN OTHER COMPREHENSIVE INCOME	BALANCE FEBRUARY 3, 2018
Property, equipment and intangible assets	$ 19,382	$ (2,073)	$ –	$ 17,309	$ (598)	$ –	**$ 16,711**
Inventories	(1,279)	(552)	–	(1,831)	429	–	**(1,402)**
Trade and other payables	3,360	(605)	–	2,755	501	–	**3,256**
Derivative financial (asset) liability	(2,740)	(1)	2,889	148	1	1,658	**1,807**
Pension liability	5,167	238	(384)	5,021	204	(60)	**5,165**
Tax benefit of losses carried forward	1,767	377	–	2,144	255	–	**2,399**
Other	171	174	–	345	160	–	**505**
	$ 25,828	$ (2,442)	$ 2,505	$ 25,891	$ 952	$ 1,598	**$ 28,441**

UNRECOGNIZED DEFERRED TAX ASSETS

As at February 3, 2018, deferred tax assets that have not been recognized amounted to $442 (January 28, 2017 – $1,404) relating to deductible temporary differences of $1,647 on the marketable securities (January 28, 2017 – $5,278) that do not expire. These temporary differences will result in capital losses when realized. As management believes it is not probable that the temporary differences will reverse in the foreseeable future, the deferred tax asset has not been recognized.

10 TRADE AND OTHER PAYABLES

	FEBRUARY 3, 2018	JANUARY 28, 2017
Trade payables	**$ 68,044**	$ 74,354
Personnel liabilities	**19,031**	22,507
Payables relating to premises	**11,577**	9,189
Other non-trade payables	**1,398**	14,393
Provision for sales returns	**1,203**	997
	101,253	121,440
Less non-current portion	**8,598**	7,186
	$ 92,655	$ 114,254

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

	FEBRUARY 3, 2018	JANUARY 28, 2017
Deferred rent and other payables relating to premises	**$ 5,724**	$ 6,671
Onerous contracts[1]	**2,874**	–
Performance Share Units (note 15)	**–**	515
Total non-current portion of trade and other payables	**$ 8,598**	$ 7,186

[1] As a result of the decision to close its 17 Hyba stores by the conclusion of the fiscal year ending February 2, 2019, the Company has recognized a provision of $2,874 for onerous leases related to these stores.

11 DEFERRED REVENUE

	FEBRUARY 3, 2018	JANUARY 28, 2017
Loyalty points and awards granted under loyalty programs	**$ 8,316**	$ 7,981
Unredeemed gift cards	**13,261**	13,497
	$ 21,577	$ 21,478

12 LONG-TERM DEBT

The mortgage, bearing interest at 6.40% matured in November 2017 and was fully repaid.

13 PENSION LIABILITY

The following tables present reconciliations of the pension obligations, the plan assets and the funded status of the retirement benefit plans:

FUNDED STATUS

	FAIR VALUE OF PLAN ASSETS	DEFINED BENEFIT OBLIGATION	PENSION ASSET (LIABILITY)
As at February 3, 2018			
Plan	**$ 25,846**	**$ 25,232**	**$ 614**
SERP	**–**	**19,850**	**(19,850)**
Total	**$ 25,846**	**$ 45,082**	**$ (19,236)**
As at January 28, 2017			
Plan	$ 23,929	$ 23,119	$ 810
SERP	–	19,679	(19,679)
Total	$ 23,929	$ 42,798	$ (18,869)

FOR THE YEARS ENDED	FEBRUARY 3, 2018			JANUARY 28, 2017		
	PLAN	SERP	TOTAL	PLAN	SERP	TOTAL
Movement in the present value of the defined benefit obligation						
Defined benefit obligation, beginning of year	**$ 23,119**	**$ 19,679**	**$ 42,798**	$ 21,998	$ 19,156	$ 41,154
Current service cost	**1,402**	**136**	**1,538**	1,439	115	1,554
Interest cost	**916**	**740**	**1,656**	907	744	1,651
Employee contributions	**194**	**–**	**194**	248	–	248
Actuarial gain – experience	**(150)**	**(653)**	**(803)**	(595)	(55)	(650)
Actuarial loss (gain) – financial assumptions	**1,039**	**644**	**1,683**	(8)	148	140
Benefits paid from plan assets	**(1,288)**	**–**	**(1,288)**	(870)	–	(870)
Benefits paid directly by the Company	**–**	**(696)**	**(696)**	–	(429)	(429)
Defined benefit obligation, end of year	**$ 25,232**	**$ 19,850**	**$ 45,082**	$ 23,119	$ 19,679	$ 42,798
Movement in the fair value of plan assets						
Fair value of plan assets, beginning of year	**$ 23,929**	**$ –**	**$ 23,929**	$ 21,818	$ –	$ 21,818
Gain on return on plan assets	**1,137**	**–**	**1,137**	913	–	913
Interest income on plan assets	**908**	**–**	**908**	859	–	859
Employer contributions	**1,070**	**696**	**1,766**	1,132	429	1,561
Employee contributions	**194**	**–**	**194**	248	–	248
Benefits paid	**(1,288)**	**(696)**	**(1,984)**	(870)	(429)	(1,299)
Plan administration costs	**(104)**	**–**	**(104)**	(171)	–	(171)
Fair value of plan assets, end of year	**$ 25,846**	**$ –**	**$ 25,846**	$ 23,929	$ –	$ 23,929

For the year ended February 3, 2018, the net defined benefit obligation can be allocated to the plans' participants as follows:

- Active plan participants 41% (January 28, 2017 – 44%)
- Retired plan members 54% (January 28, 2017 – 54%)
- Deferred plan participants 5% (January 28, 2017 – 2%)

The defined benefit pension plan assets are held in trust and consisted of the following assets categories, which are not based on quoted market prices in an active market:

	FOR THE YEARS ENDED			
	FEBRUARY 3, 2018		JANUARY 28, 2017	
Equity securities				
Canadian – pooled funds	**$ 8,439**	**33%**	$ 7,910	33%
Foreign – pooled funds	**7,145**	**27%**	6,481	27%
Total equity securities	**15,584**	**60%**	14,391	60%
Debt securities – fixed income pooled funds	**9,581**	**37%**	8,864	37%
Cash and cash equivalents	**681**	**3%**	674	3%
Total	**$ 25,846**	**100%**	$ 23,929	100%

The Company's pension expense was as follows:

	FOR THE YEARS ENDED					
	FEBRUARY 3, 2018			JANUARY 28, 2017		
	PLAN	SERP	TOTAL	PLAN	SERP	TOTAL
Pension costs recognized in net earnings						
Current service cost	**$ 1,402**	**$ 136**	**$ 1,538**	$ 1,439	$ 115	$ 1,554
Net interest cost on net pension liability	**8**	**740**	**748**	48	744	792
Plan administration costs	**104**	**–**	**104**	171	–	171
Pension expense	**$ 1,514**	**$ 876**	**$ 2,390**	$ 1,658	$ 859	$ 2,517

Pension expense for the year ended February 3, 2018, has been recorded in selling and distribution expenses for an amount of $1,117 (January 28, 2017 – $1,170) and in administrative expenses for an amount of $1,273 (January 28, 2017 – $1,347) in the consolidated statements of earnings.

The following table presents the change in the actuarial gains and losses recognized in other comprehensive income and subsequently reclassified from accumulated other comprehensive income to retained earnings:

	FOR THE YEARS ENDED					
	FEBRUARY 3, 2018			JANUARY 28, 2017		
	PLAN	SERP	TOTAL	PLAN	SERP	TOTAL
Cumulative (gain) loss in retained earnings at the beginning of the year	**$ (36)**	**$ 3,617**	**$ 3,581**	$ 1,480	$ 3,524	$ 5,004
(Gain) loss recognized during the year	**(248)**	**(9)**	**(257)**	(1,516)	93	(1,423)
Cumulative (gain) loss in retained earnings at the end of the year	**$ (284)**	**$ 3,608**	**$ 3,324**	$ (36)	$ 3,617	$ 3,581
Gain recognized during the year net of tax			**$ (197)**			$ (1,039)

ACTUARIAL ASSUMPTIONS

Principal actuarial assumptions used were as follows:

	FOR THE YEARS ENDED	
	FEBRUARY 3, 2018	JANUARY 28, 2017
Accrued benefit obligation:		
Discount rate	**3.50 %**	3.80 %
Salary increase	**4.00 %**	4.00 %
Mortality	**2014 Private Sector Canadian Pensioner's Mortality Table, projected generationally using Scale B, adjusted for pension size**	2014 Private Sector Canadian Pensioner's Mortality Table, projected generationally using Scale B, adjusted for pension size
Employee benefit expense:		
Discount rate	**3.80 %**	3.90 %
Salary increase	**4.00 %**	5.00 %

SENSITIVITY OF KEY ACTUARIAL ASSUMPTIONS

The following table outlines the key assumptions for the years ended February 3, 2018 and January 28, 2017 and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and the net defined benefit plan costs.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	FOR THE YEARS ENDED					
	FEBRUARY 3, 2018			JANUARY 28, 2017		
	PLAN	SERP	TOTAL	PLAN	SERP	TOTAL
(Decrease) increase in defined benefit obligation						
Discount rate						
Impact of increase of 1%	**$ (3,303)**	**$ (2,068)**	**$ (5,371)**	$ (3,103)	$ (2,152)	$ (5,255)
Impact of decrease of 1%	**$ 3,801**	**$ 2,309**	**$ 6,110**	$ 3,583	$ 2,417	$ 6,000
Salary increase or decrease						
Impact of increase of 1%	**$ 601**	**$ (5)**	**$ 596**	$ 641	$ 26	$ 667
Impact of decrease of 1%	**$ (587)**	**$ 5**	**$ (582)**	$ (623)	$ (26)	$ (649)
Lifetime expectancy						
Impact of increase of 1 year in expected lifetime of plan members	**$ 633**	**$ 534**	**$ 1,167**	$ 569	$ 504	$ 1,073

Overall return in the capital markets and the level of interest rates affect the funded status of the Company's pension plans. Adverse changes with respect to pension plan returns and the level of interest rates from the date of the last actuarial valuation may have an adverse effect on the funded status of the retirement benefit plans and on the Company's results of operations.

The Company expects $989 in employer contributions to be paid to the Plan and $766 to the SERP in the year ending February 2, 2019. The weighted average durations of the Plan and SERP are approximately 14 and 11 years, respectively, as at February 3, 2018 (January 28, 2017 – 14 and 12 years).

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes at year-end. The most recent actuarial valuation for funding purposes was as of December 31, 2015 and the next required valuation will be as of December 31, 2018.

14 SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

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

	FOR THE YEARS ENDED			
	FEBRUARY 3, 2018		JANUARY 28, 2017	
	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 year	**13,440**	**$ 482**	13,440	$ 482
Class A non-voting shares				
Balance at beginning and end of the year	**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

For the years ended February 3, 2018 and January 28, 2017, the Company did not purchase any shares under a normal course issuer bid.

In December 2017, the Company received approval from the Toronto Stock Exchange to proceed with a normal course issuer bid. Under the bid, the Company may purchase up to 3,282,764 Class A non-voting shares of the Company, representing 10% of the public float of the issued and outstanding Class A non-voting shares as at December 5, 2017. The bid commenced on December 19, 2017 and may continue to December 18, 2018.

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 $2,912)	**(7,929)**	**–**	**(7,929)**
Transfer of realized loss on cash flow hedges to inventory (net of tax of $1,254)	**3,416**	**–**	**3,416**
Change in foreign currency translation differences	**–**	**259**	**259**
Balance at February 3, 2018	**$ (4,923)**	**$ (658)**	**$ (5,581)**
Balance at January 31, 2016	$ 7,514	$ (1,120)	$ 6,394
Net change in fair value of cash flow hedges (net of tax of $3,334)	(9,152)	–	(9,152)
Transfer of realized loss on cash flow hedges to inventory (net of tax of $445)	1,228	–	1,228
Change in foreign currency translation differences	–	203	203
Balance at January 28, 2017	$ (410)	$ (917)	$ (1,327)

DIVIDENDS

The following dividends were declared and paid by the Company:

	FOR THE YEARS ENDED FEBRUARY 3, 2018	JANUARY 28, 2017
Common shares and Class A non-voting shares	**$ 12,666**	$ 12,666
Dividends per share	**$ 0.20**	$ 0.20

15 SHARE-BASED PAYMENTS

SHARE OPTION PLAN

On June 8, 2016, the Company amended its share option plan. Under the amended plan, the Company can, at its sole discretion, grant share options and/or Share Appreciation Rights ("SARs"). The amended share option 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 YEARS ENDED			
	FEBRUARY 3, 2018		JANUARY 28, 2017	
	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, at beginning of year	**3,843**	**$ 9.27**	3,610	$ 9.62
Granted	**–**	**–**	415	4.97
Exercised	**–**	**–**	–	–
Forfeited	**(1,442)**	**11.71**	(182)	6.27
Outstanding, at end of year	**2,401**	**$ 7.81**	3,843	$ 9.27
Options exercisable, at end of year	**1,763**	**$ 8.39**	1,970	$ 11.91

No share option awards were granted during the year ended February 3, 2018 (415,000 share options granted during the year ended January 28, 2017). The cost of granted options are expensed over their vesting period based on their estimated fair values on the date of the grant, determined using the Black-Scholes option pricing model. Compensation cost related to the share option awards granted during the year ended January 28, 2017 under the fair value based approach was calculated using the following assumptions:

	70,000 OPTIONS GRANTED DECEMBER 13, 2016	50,000 OPTIONS GRANTED SEPTEMBER 28, 2016	295,000 OPTIONS GRANTED JUNE 8, 2016
Expected option life	4.4 years	4.9 years	4.4 years
Risk-free interest rate	1.03%	0.69%	0.80%
Expected stock price volatility	34.03%	33.25%	33.11%
Average dividend yield	3.17%	3.08%	4.55%
Weighted average fair value of options granted	$ 1.35	$ 1.37	$ 0.78
Share price at grant date	$ 6.31	$ 6.49	$ 4.40

The following table summarizes information about share options outstanding at February 3, 2018:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING (IN 000'S)	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE (IN 000'S)	WEIGHTED AVERAGE EXERCISE PRICE
$4.40 – $6.00	1,037	6.04 years	$ 5.75	788	$ 5.83
$6.31 – $6.75	884	6.77	6.71	495	6.73
$11.68 – $18.26	480	3.99	14.31	480	14.31
	2,401	**5.90 years**	**$ 7.81**	**1,763**	**$ 8.39**

For the year ended February 3, 2018, the Company recognized compensation costs of $350 relating to its share option plan ($762 for the year ended January 28, 2017), with a corresponding credit to contributed surplus.

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 year ended January 28, 2017). PSUs vest in whole after the performance period upon meeting pre-determined non-market conditions.

The changes in outstanding PSUs were as follows:

	FOR THE YEARS ENDED	
	FEBRUARY 3, 2018	JANUARY 28, 2017
	PSUs (IN 000'S)	PSUs (IN 000'S)
Outstanding, at beginning of year	**388**	–
Granted	**322**	409
Forfeited	**(164)**	(21)
Outstanding, at end of year	**546**	388

As of February 3, 2018, 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 $349 in selling and distribution expenses and $166 in administrative expenses for the year ended February 3, 2018 with a corresponding reduction in other non-current payables (expense of $349 in selling and distribution expenses and $166 in administrative expenses for year ended January 28, 2017 with a corresponding increase in other non-current payables).

16 COMMITMENTS

As at February 3, 2018, financial commitments for minimum lease payments under operating leases for retail stores, offices, automobiles and equipment, as well as amounts pertaining to agreements to purchase goods or services that are enforceable and legally binding on the Company, exclusive of additional amounts based on sales, taxes and other costs are payable as follows:

	STORE AND OFFICE OPERATING LEASES	PURCHASE OBLIGATIONS	OTHER OPERATING LEASES	TOTAL
Within 1 year	$ 75,841	$ 114,183	$ 5,090	$ 195,114
Within 2 years	61,603	1,911	3,300	66,814
Within 3 years	48,203	1,340	29	49,572
Within 4 years	36,554	–	–	36,554
Within 5 years	23,114	–	–	23,114
Subsequent years	25,198	–	–	25,198
Total	**$ 270,513**	**$ 117,434**	**$ 8,419**	**$ 396,366**

The Company leases retail stores and offices under operating leases. The leases have varying terms, escalation clauses and renewal rights. Generally, the leases run for a period that does not exceed 10 years, with options to renew that do not exceed 5 years, if at all. The majority of the leases require additional payments for the cost of insurance, taxes, maintenance and utilities. Certain rental agreements include contingent rent, which is generally based on revenue exceeding a minimum amount.

For the year ended February 3, 2018, $143,997 was recognized as an expense in net earnings with respect to operating leases ($152,253 for the year ended January 28, 2017), of which $141,215 ($149,519 for the year ended January 28, 2017) represents minimum lease payments and additional rent charges and $2,782 ($2,734 for the year ended January 28, 2017) represents contingent rents.

17 FINANCE INCOME AND FINANCE COSTS

	FOR THE YEARS ENDED FEBRUARY 3, 2018	JANUARY 28, 2017
Dividend income from marketable securities	$ **2,537**	$ 2,507
Interest income	**1,211**	738
Net change in fair value of marketable securities	**7,261**	9,575
Finance income	**11,009**	12,820
Interest expense – mortgage	**48**	170
Foreign exchange loss	**351**	2,546
Finance costs	**399**	2,716
Net finance income	$ **10,610**	$ 10,104

18 (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share is based on net loss for the year ended February 3, 2018 of $16,311 (net earnings of $10,932 for the year ended January 28, 2017).

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

	FOR THE YEARS ENDED FEBRUARY 3, 2018	JANUARY 28, 2017
Weighted average number of shares per basic (loss) earnings per share calculations	**63,330**	63,330
Weighted average number of shares per diluted (loss) earnings per share calculations	**63,330**	63,330

As at February 3, 2018, all share options were excluded from the calculation of diluted loss per share as these options were deemed to be anti-dilutive because the Company is in a loss position. As at January 28, 2017, a total of 3,842,800 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.

19 RELATED PARTIES

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity – directly or indirectly. The definition of key management personnel includes directors (both executive and non-executive). The Board of Directors (which includes the Chief Executive Officer and President) and the Chief Operating Officer have the responsibility for planning, directing and controlling the activities of the Company and are considered key management personnel. The Directors participate in the share option plan, as described in note 15.

Compensation expense for key management personnel is as follows:

	FOR THE YEARS ENDED FEBRUARY 3, 2018	JANUARY 28, 2017
Salaries, Directors' fees and short-term benefits	$ **2,956**	$ 3,102
Share-based compensation costs	**66**	436
	$ **3,022**	$ 3,538

OTHER RELATED-PARTY TRANSACTIONS

The Company leased two retail locations during the year, which were owned by companies controlled by the major shareholders of the Company. For the year ended February 3, 2018, the rent expense under these leases was, in the aggregate, $175 (January 28, 2017 – $217). Effective November 2017, the leased locations are no longer owned by companies controlled by the major shareholders of the Company.

The Company incurred $342 in the year ended February 3, 2018 (January 28, 2017 – $361) with professional service firms connected to certain members of the Board of Directors of the Company for fees in conjunction with general legal advice and other consultation.

These transactions are recorded at the amount of consideration paid as established and agreed to by the related parties.

20 PERSONNEL EXPENSES

	FOR THE YEARS ENDED	
	FEBRUARY 3, 2018	JANUARY 28, 2017
Wages, salaries and employee benefits	**$ 233,638**	$ 232,021
Expenses related to defined benefit plans	**2,390**	2,517
(Recovery of) share-based compensation costs	**(165)**	1,277
	$ 235,863	$ 235,815

21 CREDIT FACILITY AND GUARANTEES

At February 3, 2018, the Company had unsecured operating lines of credit available with Canadian chartered banks to a maximum of $75,000 or its U.S. dollar equivalent. As at February 3, 2018, $4,275 (January 28, 2017 – $9,745) of the operating lines of credit were committed for documentary and standby letters of credit. The committed operating lines of credit are recorded when the Company considers it probable that a payment has to be made to the other party of the contract. The Company has recorded no liability with respect to these committed operating lines of credit as the Company does not expect to make any payments for these items.

22 SUPPLEMENTARY CASH FLOW INFORMATION

	FEBRUARY 3, 2018	JANUARY 28, 2017
Non-cash transactions:		
Additions to property and equipment and intangible assets included in trade and other payables	**$ 1,424**	$ 973

During the year ended February 3, 2018, the Company fully repaid its long-term debt amounting to $1,655 (January 28, 2017 – $1,896) in principal repayments and $48 (January 28, 2017 – $170) in interest payments.

23 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.

	FEBRUARY 3, 2018						
	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	**$ –**	**$ 37**	**$ –**	**$ 37**	**$ –**	**$ 37**	**$ 37**
Marketable securities	**$ 62,025**	**$ –**	**$ –**	**$ 62,025**	**$ 62,025**	**$ –**	**$ 62,025**
Financial liabilities measured at fair value through profit or loss							
Derivative financial liability	**$ –**	**$ 9,745**	**$ –**	**$ 9,745**	**$ –**	**$ 9,745**	**$ 9,745**

	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
Financial assets measured at fair value through profit or loss							
Derivative financial asset	$ –	$ 1,386	$ –	$ 1,386	$ –	$ 1,386	$ 1,386
Marketable securities	$ 54,764	$ –	$ –	$ 54,764	$ 54,764	$ –	$ 54,764
Financial liabilities measured at fair value through profit or loss							
Derivative financial liability	$ –	$ 3,160	$ –	$ 3,160	$ –	$ 3,160	$ 3,160
Financial liabilities not measured at fair value							
Long-term debt	$ –	$ –	$ 1,655	$ 1,655	$ –	$ 1,704	$ 1,704

There were no transfers between levels of the fair value hierarchy for the years ended February 3, 2018 and January 28, 2017.

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:

	FEBRUARY 3, 2018				
	AVERAGE STRIKE PRICE	NOTIONAL AMOUNT IN U.S. DOLLARS	DERIVATIVE FINANCIAL ASSET	DERIVATIVE FINANCIAL LIABILITY	NET
Foreign exchange forward contracts	**$ 1.286**	**$ 204,500**	**$ 37**	**$ (9,745)**	**$ (9,708)**

	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)

No ineffectiveness was recognized in net earnings as the change in fair value used for calculating the ineffectiveness of hedging instruments was the same or lower than the change in fair value used for calculating the ineffectiveness of the hedged items.

24 FINANCIAL RISK MANAGEMENT

The Company may periodically use derivative financial instruments to manage risks related to fluctuations in foreign exchange rates. The use of derivative financial instruments is governed by the Company's risk management policies approved by the Board of Directors. 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. Disclosures relating to the Company's exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk are provided below.

CREDIT RISK

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, marketable securities, trade and other receivables and foreign currency forwards contracts. The Company limits its exposure to credit risk with respect to cash and cash equivalents and foreign currency forwards contracts by dealing with major Canadian financial institutions. Marketable securities consist of preferred shares of highly-rated Canadian public companies. The Company's trade and other receivables consist primarily of credit card receivables from the last few days of the fiscal year, which are settled within the first days of the next fiscal year. Due to the nature of the Company's activities and the low credit risk of the Company's trade and other receivables as at February 3, 2018 and January 28, 2017, expected credit loss on these financial assets is not significant.

As at February 3, 2018, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	$ 104,656
Marketable securities	62,025
Trade and other receivables	4,880
Derivative financial asset	37
	$ 171,598

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of trade and other payables is within twelve months. As at February 3, 2018, the Company had a high degree of liquidity with $166,681 in cash and cash equivalents, and marketable securities. In addition, the Company has unsecured credit facilities of $75,000 subject to annual renewals. The Company has financed its store expansion through internally-generated funds and its unsecured credit facilities are used to finance seasonal working capital requirements for U.S. dollar merchandise purchases.

FOREIGN CURRENCY RISK

The Company purchases a significant amount of its merchandise with U.S. dollars and as such significant volatility in the U.S. dollar vis-à-vis the Canadian dollar can have an adverse impact on the Company's gross margin. The Company has a variety of alternatives that it considers to manage its foreign currency exposure on cash flows related to these purchases. These include, but are not limited to, various styles of foreign currency option or forward contracts, normally not to exceed twelve months, and spot rate purchases. A foreign currency option contract represents an option or obligation to buy a foreign currency from a counterparty. 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. The Company enters into certain qualifying foreign exchange contracts that it designated as cash flow hedging instruments. This has resulted in mark-to-market foreign exchange adjustments, for qualifying hedged instruments, being recorded as a component of other comprehensive income. The foreign exchange contracts that were settled during the year ended February 3, 2018 were designated as cash flow hedges and qualified for hedge accounting. The underlying risk of the foreign exchange contracts is identical to the hedged risk, and accordingly the Company established a ratio of 1:1 for all foreign exchange hedges.

The Company has performed a sensitivity analysis on its U.S. dollar denominated financial instruments, which consist principally of cash and cash equivalents of $16,163 and trade payables of $43,447 to determine how a change in the U.S. dollar exchange rate would impact net earnings. On February 3, 2018, a 5% rise or fall in the Canadian dollar against the U.S. dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in a $1,617 increase or decrease, respectively, in the Company's net earnings for the year ended February 3, 2018.

The Company has performed a sensitivity analysis on its derivative financial instruments (which are all designated as cash flow hedges), to determine how a change in the U.S. dollar exchange rate would impact other comprehensive income. On February 3, 2018, a 5% rise or fall in the Canadian dollar against the U.S. dollar, assuming that all other variables had remained the same, would have resulted in a $9,232 decrease or increase, respectively, in the Company's other comprehensive income for the year ended February 3, 2018.

INTEREST RATE RISK

Interest rate risk exists in relation to the Company's cash and cash equivalents. Market fluctuations in interest rates impacts the Company's earnings with respect to interest earned on cash and cash equivalents that are invested mainly with major Canadian financial institutions. The Company has unsecured borrowing and working capital credit facilities available up to an amount of $75,000 or its U.S. dollar equivalent that it utilizes for documentary and standby letters of credit, and the Company funds the drawings on these facilities as the payments are due.

The Company has performed a sensitivity analysis on interest rate risk at February 3, 2018 to determine how a change in interest rates would impact net earnings. For the year ended February 3, 2018, the Company earned interest income of $1,211 on its cash and cash equivalents. An increase or decrease of 100 basis points in the average interest rate earned during the year would have increased net earnings by $938 or decreased net earnings by $882, respectively. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

EQUITY PRICE RISK

Equity price risk arises from marketable securities. The Company monitors the mix of equity securities in its investment portfolio based on market expectations. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Chief Executive Officer.

The Company has performed a sensitivity analysis on equity price risk at February 3, 2018, to determine how a change in the market price of the Company's marketable securities would impact net earnings. The Company's equity investments consist principally of preferred shares of Canadian public companies. The Company believes that changes in interest rates influence the market price of these securities. A 5% increase or decrease in the market price of the securities at February 3, 2018, would result in a $3,035 increase or decrease, respectively, in net earnings for the year ended February 3, 2018. The Company's equity securities are subject to market risk and, as a result, the impact on net earnings may ultimately be greater than that indicated above.

25 CAPITAL MANAGEMENT

The Company's objectives in managing capital are:

- to ensure sufficient liquidity to enable the internal financing of capital projects;
- to maintain a strong capital base so as to maintain investor, creditor and market confidence; and
- to provide an adequate return to shareholders.

The Company's capital is composed of shareholders' equity. The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for new store additions, existing store renovation projects, technology infrastructure including e-commerce, and office and distribution centre improvements. The Company currently funds these requirements out of its internally-generated cash flows. The Company maintains unsecured operating lines of credit that it uses to satisfy commitments for U.S. dollar denominated merchandise purchases. The Company does not have any long-term debt, therefore, net earnings generated from operations are available for reinvestment in the Company or distribution to the Company's shareholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year over year sustainable profitable growth. On a quarterly basis, the Board of Directors also reviews the level of dividends paid to the Company's shareholders and monitors the share repurchase program activities. The Company does not have a defined share repurchase plan and decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. The Company is not subject to any externally imposed capital requirements.

DIRECTORS AND OFFICERS

DIRECTORS

BRUCE J. GUERRIERO
DAVID J. KASSIE
MARIE-JOSÉE LAMOTHE
SAMUEL MINZBERG
DANIEL RABINOWICZ
JEREMY H. REITMAN
STEPHEN F. REITMAN
HOWARD STOTLAND
JOHN J. SWIDLER
ROBERT S. VINEBERG

OFFICERS

CORPORATE

JEREMY H. REITMAN
Chairman and Chief Executive Officer

STEPHEN F. REITMAN
President and Chief Operating Officer

ERIC WILLIAMS, CPA, CA
Vice-President – Finance and Chief Financial Officer

ALAIN MURAD
Vice-President – Legal and Secretary

DIANE ARCHIBALD
Vice-President – Store Design and Development

AGA BARAN
Vice-President – Digital and eCommerce

LETA BRIDGEMAN
Vice-President – Global Sourcing

DOMENIC CARBONE
Vice-President – Distribution and Logistics

NICOLAS GAUDREAU
Vice-President – Chief Marketing Officer

GINO GUALTIERI
Vice-President – Chief Information Officer

ROB NEMETT
Vice-President – Retail Systems

ALLEN F. RUBIN
Vice-President – Operations

SAUL SCHIPPER
Vice-President – Real Estate

GILLIAN SHIP
Vice-President – Marketing Strategy and Insights

DANIELLE VALLIÈRES
Vice-President – Global Sourcing

RICHARD WAIT, CPA, CGA
Vice-President – Comptroller

BANNERS

MICHAEL STRACHAN
Group President – Reitmans, Hyba and Thyme Maternity

REITMANS

JACQUELINE TARDIF
President

CATHY COCKERTON
Vice-President – Sales and Operations

IAN DORAIS
Vice-President – Planning and Allocation

FIONA HORGAN
Vice-President – Merchandising

VALÉRIE VEDRINES
Vice-President – Marketing and Visual Presentation

THYME MATERNITY

LISA SINGER
Vice-President – Merchandising

ROXANE LIBOIRON
Vice-President – Marketing and Visual Presentation

JENNIFER MORRA
Vice-President – Sales and Operations

RW & CO.

LORA TISI
President

JEAN-FRANÇOIS FORTIN
Vice-President – Planning and Allocation

ALAIN LESSARD
Vice-President – Merchandising

JEFF RONALD
Vice-President – Sales and Operations

MICHELE SLEPEKIS
Vice-President – Marketing and Visual Presentation

JONATHON FITZGERALD
Group President – Addition Elle and Penningtons

PAUL QUINN
Vice-President – Wholesale Addition Elle and Penningtons

ADDITION ELLE

JONATHAN PLENS
President

ROSLYN GRINER
Vice-President – Marketing and Visual Presentation

ROSALBA IANNUZZI
Vice-President – Merchandising

PERRIN WOLFSON
Vice-President – Sales and Operations

NAGHAM YASSAWI
Vice-President – Planning and Allocation

PENNINGTONS

RHONDA SANDLER
General Manager

MARIA BLIGOURAS
Vice-President – Planning and Allocation

MARIE-SOLEIL CALVERT
Vice-President – Merchandising

RICHARD DUMONT
Vice-President – Sales and Operations

GINETTE HARNOIS
Vice-President – Marketing and Visual Presentation

CORPORATE INFORMATION

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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**

Une version française de ce rapport peut être obtenue en écrivant au secrétaire de
Reitmans (Canada) Limitée, 250, rue Sauvé Ouest, Montréal, Québec H3L 1Z2

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