REITMANS

(CANADA) LIMITED

Unaudited Condensed Consolidated Interim Financial Statements
August 4, 2018 and July 29, 2017

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

	Notes	For the three months ended August 4, 2018	For the three months ended July 29, 2017 (1)	For the six months ended August 4, 2018	For the six months ended July 29, 2017 (1)
Sales		**$ 248,797**	$ 250,757	**$ 456,418**	$ 457,847
Cost of goods sold	5	**111,160**	112,447	**202,468**	206,332
Gross profit		**137,637**	138,310	**253,950**	251,515
Selling and distribution expenses		**115,534**	117,017	**225,480**	232,011
Administrative expenses		**11,854**	10,896	**22,532**	21,374
Results from operating activities		**10,249**	10,397	**5,938**	(1,870)
Finance income	11	**2,578**	2,540	**4,128**	4,796
Finance costs	11	**-**	1,319	**1,065**	438
Earnings before income taxes		**12,827**	11,618	**9,001**	2,488
Income tax expense (recovery)	10	**2,800**	2,207	**2,182**	(339)
Net earnings		**$ 10,027**	$ 9,411	**$ 6,819**	$ 2,827
Earnings per share :	12				
Basic		**$ 0.16**	$ 0.15	**$ 0.11**	$ 0.04
Diluted		**$ 0.16**	$ 0.15	**$ 0.11**	$ 0.04

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.
(1) Certain comparative figures have been restated (note 3a).

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(in thousands of Canadian dollars)

	Notes	For the three months ended August 4, 2018	For the three months ended July 29, 2017 [1]	For the six months ended August 4, 2018	For the six months ended July 29, 2017 [1]
Net earnings		**$ 10,027**	$ 9,411	**$ 6,819**	$ 2,827
Other comprehensive income (loss)					
Items that are or may be reclassified subsequently to net earnings:					
Cash flow hedges (net of tax of $189 for the three months and $2,731 for the six months ended August 4, 2018; net of tax of $5,420 for the three months and $3,260 for the six months ended July 29, 2017)	8	**516**	(14,966)	**7,441**	(9,004)
Foreign currency translation differences	8	**(43)**	408	**(230)**	230
Total other comprehensive income (loss)		**473**	(14,558)	**7,211**	(8,774)
Total comprehensive income (loss)		**$ 10,500**	$ (5,147)	**$ 14,030**	$ (5,947)

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

(1) Certain comparative figures have been restated (note 3a).

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

	Notes	August 4, 2018	July 29, 2017 (1)	February 3, 2018 (1)
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	4	**$ 115,201**	$ 115,441	$ 104,656
Marketable securities	14	**60,960**	57,951	62,025
Trade and other receivables		**6,346**	5,284	4,880
Derivative financial asset	14	**4,871**	-	37
Income taxes recoverable		**-**	2,434	2,248
Inventories	5	**143,144**	148,391	137,105
Prepaid expenses		**20,519**	9,349	19,187
Total Current Assets		**351,041**	338,850	330,138
NON-CURRENT ASSETS				
Property and equipment		**100,867**	113,732	110,292
Intangible assets		**19,241**	19,828	19,433
Goodwill		**11,843**	38,183	11,843
Deferred income taxes		**24,872**	29,694	28,015
Total Non-Current Assets		**156,823**	201,437	169,583
TOTAL ASSETS		**$ 507,864**	$ 540,287	$ 499,721
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Trade and other payables	6	**$ 106,629**	$ 112,544	$ 93,711
Derivative financial liability	14	**-**	14,414	9,745
Deferred revenue	7	**15,876**	17,080	19,994
Income taxes payable		**1,824**	-	-
Current portion of long-term debt	14	**-**	661	-
Total Current Liabilities		**124,329**	144,699	123,450
NON-CURRENT LIABILITIES				
Other payables	6	**7,117**	7,101	8,598
Deferred lease credits		**7,209**	6,973	6,450
Pension liability		**19,488**	19,182	19,236
Total Non-Current Liabilities		**33,814**	33,256	34,284
SHAREHOLDERS' EQUITY				
Share capital	8	**38,397**	38,397	38,397
Contributed surplus		**10,157**	10,048	10,119
Retained earnings		**299,537**	323,988	299,052
Accumulated other comprehensive income (loss)	8	**1,630**	(10,101)	(5,581)
Total Shareholders' Equity		**349,721**	362,332	341,987
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 507,864**	$ 540,287	$ 499,721

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

(1) Certain comparative figures have been restated (note 3a).

REITMANS (CANADA) LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(in thousands of Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance as at February 4, 2018		**$ 38,397**	**$ 10,119**	**$ 297,895**	**$ (5,581)**	**$ 340,830**
IFRS 15 adoption adjustment	3a	**-**	**-**	**1,157**	**-**	**1,157**
Restated balance as at February 4, 2018		**38,397**	**10,119**	**299,052**	**(5,581)**	**341,987**
Net earnings		**-**	**-**	**6,819**	**-**	**6,819**
Total other comprehensive income	8	**-**	**-**	**-**	**7,211**	**7,211**
Total comprehensive income for the period		**-**	**-**	**6,819**	**7,211**	**14,030**
Share-based compensation costs	9	**-**	**38**	**-**	**-**	**38**
Dividends	8	**-**	**-**	**(6,334)**	**-**	**(6,334)**
Total contributions by (distributions to) owners of the Company		**-**	**38**	**(6,334)**	**-**	**(6,296)**
Balance as at August 4, 2018		**$ 38,397**	**$ 10,157**	**$ 299,537**	**$ 1,630**	**$ 349,721**
Balance as at January 29, 2017		$ 38,397	$ 9,769	$ 326,675	$ (1,327)	$ 373,514
IFRS 15 adoption adjustment	3a	-	-	820	-	820
Restated balance as at January 29, 2017		38,397	9,769	327,495	(1,327)	374,334
Net earnings		-	-	2,827	-	2,827
Total other comprehensive loss	8	-	-	-	(8,774)	(8,774)
Total comprehensive income (loss) for the period		-	-	2,827	(8,774)	(5,947)
Share-based compensation costs	9	-	279	-	-	279
Dividends	8	-	-	(6,334)	-	(6,334)
Total contributions by (distributions to) owners of the Company		-	279	(6,334)	-	(6,055)
Balance as at July 29, 2017 (1)		$ 38,397	$ 10,048	$ 323,988	$ (10,101)	$ 362,332

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

(1) Certain comparative figures have been restated (note 3a).

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

	Notes	For the three months ended August 4, 2018	For the three months ended July 29, 2017 (1)	For the six months ended August 4, 2018	For the six months ended July 29, 2017 (1)
CASH FLOWS FROM OPERATING ACTIVITIES					
Net earnings		**$ 10,027**	$ 9,411	**$ 6,819**	$ 2,827
Adjustments for:					
Depreciation, amortization and net impairment losses		**10,470**	10,412	**20,339**	21,715
Share-based compensation costs	9	**131**	208	**175**	520
Net change in fair value of marketable securities	11	**(740)**	(1,732)	**1,065**	(3,187)
Net change in transfer of realized (gain) loss on cash flow hedges to inventory		**(2,962)**	3,302	**(4,407)**	376
Foreign exchange loss (gain)		**485**	115	**1,675**	(292)
Interest and dividend income, net	11	**(1,118)**	(793)	**(2,104)**	(1,570)
Income tax expense (recovery)		**2,800**	2,207	**2,182**	(339)
		19,093	23,130	**25,744**	20,050
Changes in:					
Trade and other receivables		**2,347**	1,563	**(1,429)**	(1,058)
Inventories		**4,245**	7,974	**(6,039)**	(1,466)
Prepaid expenses		**(472)**	(267)	**(1,332)**	(2,503)
Trade and other payables		**2,856**	805	**11,806**	(2,181)
Pension liability		**135**	154	**252**	313
Deferred lease credits		**735**	(575)	**759**	(1,256)
Deferred revenue		**(224)**	(138)	**(4,118)**	(3,277)
Cash from operating activities		**28,715**	32,646	**25,643**	8,622
Interest paid	11	**-**	(15)	**-**	(39)
Interest received		**453**	215	**813**	432
Dividends received		**628**	603	**1,254**	1,207
Income taxes received		**76**	548	**2,306**	548
Income taxes paid		**(1)**	(4)	**(4)**	(7)
Net cash flows from operating activities		**29,871**	33,993	**30,012**	10,763
CASH FLOWS USED IN INVESTING ACTIVITIES					
Additions to property and equipment and intangible assets		**(6,539)**	(5,651)	**(11,304)**	(8,780)
Proceeds on disposal of property and equipment and intangibles		**-**	-	**77**	-
Cash flows used in investing activities		**(6,539)**	(5,651)	**(11,227)**	(8,780)
CASH FLOWS USED IN FINANCING ACTIVITIES					
Dividends paid	8	**(3,167)**	(3,167)	**(6,334)**	(6,334)
Repayment of long-term debt	13	**-**	(501)	**-**	(994)
Cash flows used in financing activities		**(3,167)**	(3,668)	**(6,334)**	(7,328)
FOREIGN EXCHANGE (LOSS) GAIN ON CASH HELD IN FOREIGN CURRENCY		**(530)**	292	**(1,906)**	521
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**19,635**	24,966	**10,545**	(4,824)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD		**95,566**	90,475	**104,656**	120,265
CASH AND CASH EQUIVALENTS, END OF THE PERIOD		**$ 115,201**	$ 115,441	**$ 115,201**	$ 115,441

Supplementary cash flow information (note 13)
The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.
(1) Certain comparative figures have been restated (note 3a).

1. REPORTING ENTITY

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

2. BASIS OF PRESENTATION

a) Statement of Compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") on a basis consistent with those accounting policies followed by the Company in the most recent audited annual consolidated financial statements except where noted below. These unaudited condensed consolidated interim financial statements have been prepared under IFRS in accordance with IAS 34, *Interim Financial Reporting*. Certain information, in particular the accompanying notes, normally included in the audited annual consolidated financial statements prepared in accordance with IFRS has been omitted or condensed. Accordingly, these unaudited condensed consolidated interim financial statements do not include all the information required for full annual financial statements, and, therefore, should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended February 3, 2018.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on September 6, 2018.

b) Basis of Measurement

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

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

c) Seasonality of Interim Operations

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

d) Functional and Presentation Currency

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

e) Estimates, Judgments and Assumptions

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

In preparing these unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Company’s accounting policies and key sources of estimation of uncertainty were the same as those applied and described in the Company’s audited annual consolidated financial statements for the year ended February 3, 2018.

3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the significant accounting policies as disclosed in the Company’s audited annual consolidated financial statements for the year ended February 3, 2018 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

a) Adoption of new accounting policies

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 is effective for annual periods beginning on or after January 1, 2018.

The Company adopted the standard for the annual period beginning February 4, 2018 and applied the requirements of the standard retrospectively, with the cumulative effects of initial application recorded in opening retained earnings on January 29, 2017 and with the restatement of comparative periods.

IFRS 15 impacted the allocation of revenue that is deferred in relation to the Company’s customer loyalty award programs. Under IAS 18 and related interpretations, revenue was allocated to the customer loyalty awards using the residual fair value method. Under IFRS 15, the allocation of revenue that is deferred in relation to its customer loyalty award programs is allocated between the loyalty program awards and the goods on which the awards were earned, based on their relative stand-alone selling prices.

IFRS 15 also impacted the allocation of revenue that is deferred in relation to gift cards sold. Previously, an estimate was made of gift cards not expected to be redeemed based on historical redemption patterns and was recognized as revenue. Under IFRS 15, if the Company expects to be entitled to a breakage amount for the gift cards, it recognizes the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer.

Previously, the Company recognized revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of sales returns. 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 following tables summarize the impact of adopting IFRS 15 on the Company's condensed consolidated interim financial statements:

Condensed Consolidated Interim Balance Sheets

	February 3, 2018		
	As reported	**Restatements**	**As restated**
Inventories	$ 136,049	$ 1,056	$ 137,105
Deferred income taxes	28,441	(426)	28,015
Trade and other payables	92,655	1,056	93,711
Deferred revenue	21,577	(1,583)	19,994
Retained earnings	297,895	1,157	299,052

	July 29, 2017		
	As reported	**Restatements**	**As restated**
Inventories	$ 147,273	$ 1,118	$ 148,391
Deferred income taxes	29,892	(198)	29,694
Trade and other payables	111,426	1,118	112,544
Deferred revenue	17,820	(740)	17,080
Retained earnings	323,446	542	323,988

	January 29, 2017		
	As reported	**Restatements**	**As restated**
Inventories	$ 146,059	$ 866	$ 146,925
Deferred income taxes	25,891	(301)	25,590
Trade and other payables	114,254	866	115,120
Deferred revenue	21,478	(1,121)	20,357
Retained earnings	326,675	820	327,495

As the impact of adopting IFRS 15 on the balance sheet is limited to the above noted items, a restated balance sheet at January 29, 2017 has not been presented in the condensed consolidated interim balance sheets.

Condensed Consolidated Interim Statements of Earnings

	Three months ended July 29, 2017		
	As reported	**Restatements**	**As restated**
Sales	$ 251,121	$ (364)	$ 250,757
Gross profit	138,674	(364)	138,310
Results from operating activities	10,761	(364)	10,397
Earnings before income taxes	11,982	(364)	11,618
Income tax expense	2,305	(98)	2,207
Net earnings	9,677	(266)	9,411

	Six months ended July 29, 2017		
	As reported	**Restatements**	**As restated**
Sales	$ 458,228	$ (381)	$ 457,847
Gross profit	251,896	(381)	251,515
Results from operating activities	(1,489)	(381)	(1,870)
Earnings before income taxes	2,869	(381)	2,488
Income tax recovery	(236)	(103)	(339)
Net earnings	3,105	(278)	2,827

The adoption of IFRS 15 had a nominal impact on earnings per share for the comparative periods.

Update to significant accounting policies

As a result to the initial adoption of IFRS 15, as described above, the Company has updated its significant accounting policies as follows:

Revenue

The Company recognizes revenue when control of the goods or services has been transferred. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, including variable consideration to the extent that it is highly probable that a significant reversal will not occur.

Customer loyalty award programs

Revenue is allocated between the customer loyalty award programs and the goods on which the awards were earned based on their relative stand-alone selling prices. Loyalty points and awards granted under customer loyalty award programs are recorded as deferred revenue until the loyalty points and awards are redeemed by the customer.

Gift cards

Gift cards sold are recorded as deferred revenue and revenue is recognized when the gift cards are redeemed. If the Company expects to be entitled to a breakage amount for the gift cards, it recognizes the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer.

Sales with a Right of Return

The Company grants rights of return on goods sold to customers. Revenue is reduced by the amount of expected returns and a related refund liability is recorded within "Trade and other payables". In addition, the Company recognizes a related asset for the right to recover returned goods within "Inventories".

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 adopted the amendments to IFRS 2 for the annual period beginning February 4, 2018. The adoption of these amendments did not have an impact on the Company's unaudited condensed consolidated interim financial statements.

b) New Standards and Interpretations Not Yet Adopted

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

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), replacing IAS 17, Leases and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, Revenue from Contracts with Customers ("IFRS 15") has been adopted. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on February 3, 2019.

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.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On February 7, 2018, the IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019, or the date on which they are first applied (earlier application is permitted).

The amendments to IAS 19 clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan.

The Company intends to adopt the amendments to IAS 19 in its financial statements for the annual period beginning on February 3, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash held with banks bearing interest at variable rates.

5. INVENTORIES

During the three and six months ended August 4, 2018, inventories recognized as cost of goods sold amounted to $107,961 and $197,029, respectively ($109,150 and $201,016 for the three and six months ended July 29, 2017). In addition, for the three and six months ended August 4, 2018, the Company recorded $3,199 and $5,439 ($3,297 and $5,316 for the three and six months ended July 29, 2017) of write-downs of inventories as a result of net realizable value being lower than cost which were recognized in cost of goods sold, and no inventory write-downs recognized in previous periods were reversed.

Included in inventories is a return asset for the right to recover returned goods in the amount of $1,230 as at August 4, 2018 (July 29, 2017 - $1,118; February 3, 2018 - $1,056).

6. TRADE AND OTHER PAYABLES

	August 4, 2018	July 29, 2017 [1]	February 3, 2018 [1]
Trade payables	**$ 70,662**	$ 74,996	$ 68,044
Personnel liabilities	**18,980**	20,098	19,031
Payables relating to premises	**5,915**	10,584	8,703
Other non-trade payables	**12,401**	11,389	1,398
Refund liability	**2,838**	2,578	2,259
Onerous contracts [2]	**2,950**	-	2,874
	113,746	119,645	102,309
Less non-current portion	**7,117**	7,101	8,598
	$ 106,629	$ 112,544	$ 93,711

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

	August 4, 2018	July 29, 2017	February 3, 2018
Deferred rent and other payables relating to premises	**$ 5,256**	$ 6,345	$ 5,724
Onerous contracts	**1,724**	-	2,874
Performance Share Units (note 9)	**137**	756	-
Total non-current portion of trade and other payables	**$ 7,117**	$ 7,101	$ 8,598

(1) Certain comparative figures have been restated (note 3a)

(2) 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 for onerous leases related to these stores. For the three and six months ended August 4, 2018, the onerous contract provision (current and non-current) increased $464 and $975, respectively, due to additional provisions and changes in the discounted amount offset by a decrease of $656 and $899, respectively, due to amounts reversed during the period.

7. DEFERRED REVENUE

	August 4, 2018	July 29, 2017 [1]	February 3, 2018 [1]
Customer loyalty award programs	**$ 7,011**	$ 8,329	$ 6,296
Unredeemed gift cards	**8,865**	8,751	13,698
	$ 15,876	$ 17,080	$ 19,994

(1) Certain comparative figures have been restated (note 3a)

8. SHARE CAPITAL AND OTHER COMPONENTS OF EQUITY

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

	For the six months ended			
	August 4, 2018		July 29, 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 period	**13,440**	**$ 482**	13,440	$ 482
Class A non-voting shares				
Balance at beginning and end of the period	**49,890**	**37,915**	49,890	37,915
Total share capital	**63,330**	**$ 38,397**	63,330	$ 38,397

Authorized Share Capital

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

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

Purchase of Shares for Cancellation

The Company did not purchase any shares under a normal course issuer bid approved in December 2017 in the three and six months ended August 4, 2018. For further information with respect to the normal course issuer bid refer to the Company's audited annual consolidated financial statements for the year ended February 3, 2018.

Accumulated Other Comprehensive Income ("AOCI")

AOCI is comprised of the following:

	Cash Flow Hedges	Foreign Currency Translation Differences	Total AOCI
Balance at February 4, 2018	**$ (4,923)**	**$ (658)**	**$ (5,581)**
Net change in fair value of cash flow hedges (net of tax of $999)	**2,721**	**-**	**2,721**
Transfer of realized loss on cash flow hedges to inventory (net of tax of $1,732)	**4,720**	**-**	**4,720**
Change in foreign currency translation differences	**-**	**(230)**	**(230)**
Balance at August 4, 2018	**$ 2,518**	**$ (888)**	**$ 1,630**
Balance at January 29, 2017	$ (410)	$ (917)	$ (1,327)
Net change in fair value of cash flow hedges (net of tax of $3,793)	(10,475)	-	(10,475)
Transfer of realized loss on cash flow hedges to inventory (net of tax of $533)	1,471	-	1,471
Change in foreign currency translation differences	-	230	230
Balance at July 29, 2017	$ (9,414)	$ (687)	$ (10,101)

Dividends

The following dividends were declared and paid by the Company:

	For the three months ended		For the six months ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Common shares and Class A non-voting shares	**$ 3,167**	$ 3,167	**$ 6,334**	$ 6,334
Dividend per share	**$ 0.05**	$ 0.05	**$ 0.10**	$ 0.10

9. SHARE-BASED PAYMENTS

Share Option Plan

Under the share option plan, the Company can, at its sole discretion, grant share options and / or Share Appreciation Rights ("SARs"). The 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. The granting of options and the related vesting period, which is normally up to 4 years (up to 5 years for options granted before June 8, 2016), are at the discretion of the Board of Directors and the options have a maximum term of up to 7 years (up to 10 years for options granted before June 8, 2016)). 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.

The changes in outstanding share options were as follows:

	For the three months ended				For the six months ended			
	August 4, 2018		July 29, 2017		August 4, 2018		July 29, 2017	
	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price
Outstanding, at beginning of period	**2,330**	**$ 7.87**	2,974	$ 7.74	**2,401**	**$ 7.81**	3,843	$ 9.27
Granted	**-**	**-**	-	-	**-**	**-**	-	-
Exercised	**-**	**-**	-	-	**-**	**-**	-	-
Forfeited	**(259)**	**7.53**	(63)	5.79	**(330)**	**7.20**	(932)	13.93
Outstanding, at end of period	**2,071**	**$ 7.91**	2,911	$ 7.78	**2,071**	**$ 7.91**	2,911	$ 7.78
Options exercisable, at end of period	**1,496**	**$ 8.55**	1,667	$ 9.03	**1,496**	**$ 8.55**	1,667	$ 9.03

For the three and six months ended August 4, 2018, the Company recognized a recovery of compensation costs of $6 and an expense of compensation costs of $38, respectively, relating to its share option plan ($102 and $279 for the three and six months ended July 29, 2017), with a corresponding change 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 9, 2018, the Company granted 481,000 PSUs at a weighted average share price of $4.06 (322,000 PSUs at a weighted average share price of $5.09 for the six months ended July 29, 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 three months ended		For the six months ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
	PSUs (in 000's)	PSUs (in 000's)	PSUs (in 000's)	PSUs (in 000's)
Outstanding, at beginning of period	**1,009**	710	**546**	388
Granted	**-**	-	**481**	322
Forfeited	**(126)**	(46)	**(144)**	(46)
Outstanding, at end of period	**883**	664	**883**	664

As at August 4, 2018, based on a weighted average share price of $4.13 for the five trading days preceding August 4, 2018, the Company recognized a share-based compensation expense related to PSUs of $97 in selling and distribution expenses and $40 in administrative expenses for the three and six months ended August 4, 2018 ($82 and $173 in selling and distribution expenses and $24 and $68 in administrative expenses for the three and six months ended July 29, 2017, respectively) with a corresponding increase in other non-current payables.

10. INCOME TAX

In the interim periods, the income tax provision is based on an estimate of the earnings that will be generated in a full year adjusted for the impact of the fair value adjustment related to marketable securities. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods.

11. FINANCE INCOME AND FINANCE COSTS

	For the three months ended		For the six months ended	
	August 4, 2018	**July 29, 2017**	**August 4, 2018**	**July 29, 2017**
Dividend income from marketable securities	**$ 631**	$ 582	**$ 1,257**	$ 1,207
Interest income	**487**	226	**847**	402
Foreign exchange gain	**720**	-	**2,024**	-
Net change in fair value of marketable securities	**740**	1,732	**-**	3,187
Finance income	**2,578**	2,540	**4,128**	4,796
Interest expense - mortgage	**-**	15	**-**	39
Net change in fair value of marketable securities	**-**	-	**1,065**	-
Foreign exchange loss	**-**	1,304	**-**	399
Finance costs	**-**	1,319	**1,065**	438
Net finance income recognized in net earnings	**$ 2,578**	$ 1,221	**$ 3,063**	$ 4,358

12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on a net earnings for the three and six months ended August 4, 2018 of $10,027 and $6,819, respectively (net earnings of $9,411 and $2,827 for the three and six months ended July 29, 2017).

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

	For the three months ended		For the six months ended	
	August 4, 2018	**July 29, 2017**	**August 4, 2018**	**July 29, 2017**
Weighted average number of shares - basic	**63,330**	63,330	**63,330**	63,330
Weighted average number of shares - diluted	**63,330**	63,330	**63,330**	63,356

For the three and six months ended August 4, 2018, a total of 2,071,400 share options were excluded from the calculation of diluted earnings per share as these options were deemed to be anti-dilutive (2,905,400 and 2,650,400 for the three and six months ended July 29, 2017, respectively).

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

13. SUPPLEMENTARY CASH FLOW INFORMATION

	August 4, 2018	**July 29, 2017**	**February 3, 2018**
Non-cash transactions:			
Additions to property and equipment and intangible assets included in trade and other payables	**$ 918**	$ 252	$ 1,424

Included in depreciation, amortization and impairment losses are write-offs of property and equipment related to store closures and asset impairment charges relating to underperforming stores of $1,469 and $2,199 for the three and six months ended August 4, 2018, respectively ($938 and $1,847 for three and six months ended July 29, 2017). The impairment related to the property and equipment is due to the reduction in profitability at individual store locations (cash-generating units "CGUs"). In addition, during the three and six months ended August 4, 2018, no asset impairment charges were reversed following an improvement in the profitability of certain CGU's ($271 for the three and six months ended July 29, 2017). Net impairment losses have been recorded in selling and distribution expenses.

For the three and six months ended July 29, 2017, the Company paid $501 and $994 in principal repayments and $15 and $39 in interest payments against its long-term debt, respectively.

14. 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.

	August 4, 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	**$ -**	**$ 4,871**	**$ -**	**$ 4,871**	**$ -**	**$ 4,871**	**$ 4,871**
Marketable securities	**$ 60,960**	**$ -**	**$ -**	**$ 60,960**	**$ 60,960**	**$ -**	**$ 60,960**

	July 29, 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							
Marketable securities	$ 57,951	$ -	$ -	$ 57,951	$ 57,951	$ -	$ 57,951
Financial liabilities measured at fair value through profit or loss							
Derivative financial liability	$ -	$ 14,414	$ -	$ 14,414	$ -	$ 14,414	$ 14,414
Financial liabilities not measured at fair value through profit or loss							
Long-term debt	$ -	$ -	$ 661	$ 661	$ -	$ 685	$ 685

	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

There were no transfers between levels of the fair value hierarchy for the periods ended August 4, 2018, July 29, 2017 and February 3, 2018.

Derivative financial instruments

The Company entered into forward contracts with its bank 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:

	August 4, 2018				
	Average Strike Price	**Notional Amount in U.S. Dollars**	**Derivative Financial Asset**	**Derivative Financial Liability**	**Net**
Foreign exchange forward contracts	**$ 1.262**	**$ 147,500**	**$ 4,871**	**$ -**	**$ 4,871**

	July 29, 2017				
	Average Strike Price	**Notional Amount in U.S. Dollars**	**Derivative Financial Asset**	**Derivative Financial Liability**	**Net**
Foreign exchange forward contracts	$ 1.317	$ 199,500	$ -	$(14,414)	$ (14,414)

	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)

15. FINANCIAL RISK MANAGEMENT

The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company’s activities. There have been no significant changes in the Company’s risk exposures during the three and six months ended August 4, 2018 from those described in the Company’s audited annual consolidated financial statements for the year ended February 3, 2018.