

# REITMANS

(CANADA) LIMITED

**Consolidated Financial Statements**  
**Years ended January 30, 2021 and February 1, 2020**



**KPMG LLP**  
600 de Maisonneuve Blvd. West  
Suite 1500, Tour KPMG  
Montréal (Québec) H3A 0A3  
Canada

Telephone (514) 840-2100  
Fax (514) 840-2187  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Reitmans (Canada) Limited

### **Opinion**

We have audited the consolidated financial statements of Reitmans (Canada) Limited (the "Entity"), which comprise:

- the consolidated balance sheets as at January 30, 2021 and February 1, 2020
- the consolidated statements of earnings for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at January 30, 2021 and February 1, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 2(b) in the financial statements which indicates that the Entity obtained, during the year, an initial order from the Superior Court of Quebec to seek protection from creditors under the *Companies' Creditors Arrangement Act*. In addition, the Entity incurred a net loss of \$172.2 million for the year ended January 30, 2021, and the Entity's current liabilities of \$284.5 million as at January 30, 2021 exceeded current assets of \$216.8 million.



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As stated in Note 2(b) in the financial statements, these events or conditions, along with other matters as set forth in Note 2(b) in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

### ***Other Information***

Management is responsible for the other information. Other information comprise the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is Marie Valcourt.

*KPMG LLP\**

Montréal, Canada

April 19, 2021

**REITMANS (CANADA) LIMITED**  
**CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)**

For the years ended January 30, 2021 and February 1, 2020  
(in thousands of Canadian dollars except per share amounts)

	Notes	2021	2020 <sup>(1)</sup>
Sales		\$ 533,362	\$ 705,460
Cost of goods sold	7	<u>287,108</u>	<u>341,610</u>
Gross profit		246,254	363,850
Selling and distribution expenses		278,870	353,848
Administrative expenses		32,342	45,149
Impairment of non-financial assets	8,9,10	16,524	2,579
Restructuring costs	14	<u>26,516</u>	<u>-</u>
Results from operating activities		<b>(107,998)</b>	<b>(37,726)</b>
Finance income	19	13,897	3,173
Finance costs	19	<u>5,744</u>	<u>14,780</u>
Loss before income taxes		<b>(99,845)</b>	<b>(49,333)</b>
Income tax expense	11	<u>191</u>	<u>23,829</u>
Net loss from continuing operations		<b>(100,036)</b>	<b>(73,162)</b>
Loss from discontinued operations, net of tax	4	<u>(72,181)</u>	<u>(14,264)</u>
Net loss		<b>\$ (172,217)</b>	<b>\$ (87,426)</b>
Loss per share:	20		
Basic		\$ (3.52)	\$ (1.56)
Diluted		(3.52)	(1.56)
Loss per share from continuing operations:	20		
Basic		\$ (2.05)	\$ (1.31)
Diluted		(2.05)	(1.31)

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

(1) Comparative figures have been restated to separately present the results of continuing and discontinued operations. See note 4.

**REITMANS (CANADA) LIMITED****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

For the years ended January 30, 2021 and February 1, 2020

(in thousands of Canadian dollars)

	Notes	<u>2021</u>	<u>2020</u>
Net loss		\$ (172,217)	\$ (87,426)
Other comprehensive income (loss)			
Items that may be reclassified subsequently to net earnings:			
Cash flow hedges (net of tax of \$273; 2020 - \$401)	16	(754)	1,106
Foreign currency translation differences	16	127	(49)
		<u>(627)</u>	<u>1,057</u>
Items that will not be reclassified to net earnings:			
Actuarial gain (loss) on defined benefit plan (net of tax of \$nil; 2020 - \$1,227)	15	700	(4,325)
		<u>73</u>	<u>(3,268)</u>
Total other comprehensive income (loss)			
		<u>73</u>	<u>(3,268)</u>
Total comprehensive loss		<u>\$ (172,144)</u>	<u>\$ (90,694)</u>

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

**REITMANS (CANADA) LIMITED**  
**CONSOLIDATED BALANCE SHEETS**

As at January 30, 2021 and February 1, 2020  
(in thousands of Canadian dollars)

	Notes	2021	2020
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	\$ 77,915	\$ 89,410
Trade and other receivables	6	10,668	6,313
Derivative financial asset	25	-	1,124
Inventories	7	96,122	147,428
Prepaid expenses	12	32,100	9,441
Total Current Assets		216,805	253,716
<b>NON-CURRENT ASSETS</b>			
Property and equipment	8	66,112	88,090
Intangible assets	9	10,331	20,267
Right-of-use assets	10	103,831	198,097
Deferred income taxes	11	151	-
Total Non-Current Assets		180,425	306,454
<b>TOTAL ASSETS</b>		<b>\$ 397,230</b>	<b>\$ 560,170</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	\$ 31,522	\$ 109,674
Derivative financial liability	25	-	348
Deferred revenue	13	12,462	15,042
Income taxes payable		1,169	3,207
Current portion of lease liabilities	10	35,303	61,618
Liabilities subject to compromise	14	204,083	-
Total Current Liabilities		284,539	189,889
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities	10	87,914	152,251
Pension liability	15	3,092	24,213
Total Non-Current Liabilities		91,006	176,464
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	27,406	27,406
Contributed surplus		10,295	10,283
(Deficit) Retained earnings		(15,162)	156,355
Accumulated other comprehensive loss	16	(854)	(227)
Total Shareholders' Equity		21,685	193,817
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 397,230</b>	<b>\$ 560,170</b>

Going concern, impact of COVID-19 and CCAA proceedings (note 2(b))  
Subsequent events (note 28)

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

On behalf of the Board,

(signed) Stephen F. Reitman, Director

(signed) Bruce J. Guerriero, Director

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

For the years ended January 30, 2021 and February 1, 2020

(in thousands of Canadian dollars)

	Notes	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
<b>Balance as at February 2, 2020</b>		\$ 27,406	\$ 10,283	\$ 156,355	\$ (227)	\$ 193,817
Net loss		-	-	(172,217)	-	(172,217)
Total other comprehensive income (loss)	15,16	-	-	700	(627)	73
<b>Total comprehensive loss for the year</b>		-	-	(171,517)	(627)	(172,144)
Share-based compensation costs	17	-	12	-	-	12
<b>Total contributions by owners of the Company</b>		-	12	-	-	12
<b>Balance as at January 30, 2021</b>		\$ 27,406	\$ 10,295	\$ (15,162)	\$ (854)	\$ 21,685
<b>Balance as at February 3, 2019</b>		\$ 38,397	\$ 10,245	\$ 292,295	\$ (1,284)	\$ 339,653
Net loss		-	-	(87,426)	-	(87,426)
Total other comprehensive (loss) income	15,16	-	-	(4,325)	1,057	(3,268)
<b>Total comprehensive (loss) income for the year</b>		-	-	(91,751)	1,057	(90,694)
Share-based compensation costs	17	-	38	-	-	38
Dividends	16	-	-	(8,776)	-	(8,776)
Purchase of Class A non-voting shares pursuant to substantial issuer bid	16	(10,991)	-	-	-	(10,991)
Excess of purchase price of Class A non-voting shares over carrying amount (including tax of \$2,693)	16	-	-	(35,413)	-	(35,413)
<b>Total (distributions to) contributions by owners of the Company</b>		(10,991)	38	(44,189)	-	(55,142)
<b>Balance as at February 1, 2020</b>		\$ 27,406	\$ 10,283	\$ 156,355	\$ (227)	\$ 193,817

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

**REITMANS (CANADA) LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended January 30, 2021 and February 1, 2020  
(in thousands of Canadian dollars)

	Notes	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss		\$ (172,217)	\$ (87,426)
Adjustments for:			
Depreciation and amortization	8,9,10	61,031	99,076
Impairment of non-financial assets	8,9,10	38,542	3,893
Impairment of goodwill	4	-	11,843
Share-based compensation costs	17	12	(51)
Net change in fair value of marketable securities	19	-	8,264
Net change in transfer of realized (gain) loss on cash flow hedges to inventory		(250)	1,665
Foreign exchange gain		(436)	(3,597)
Gain on lease re-measurements due to restructuring	10,14	(8,216)	-
Interest on lease liabilities	10,19	6,202	7,479
Interest and dividend income, net	19	(436)	(3,173)
Income tax expense	11	271	22,942
		(75,497)	60,915
Changes in:			
Trade and other receivables		(4,510)	1,930
Inventories		51,306	(619)
Prepaid expenses		(22,659)	4,078
Trade and other payables		(78,644)	11,013
Liabilities subject to compromise	14	194,615	-
Pension liability	15	(20,421)	71
Deferred revenue		(2,580)	(167)
Cash from operating activities		41,610	77,221
Interest received		591	1,820
Dividends received		-	1,582
Income taxes received		133	633
Income taxes paid		(2,139)	(4,080)
Net cash flows from operating activities		40,195	77,176
<b>CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES</b>			
Additions to property and equipment and intangible assets, net	8,9,24	(6,164)	(23,475)
Proceeds on sale of marketable securities	19	-	41,425
Cash flows (used in) from investing activities		(6,164)	17,950
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Dividends paid	16	-	(8,776)
Payment of lease liabilities	10,24	(46,818)	(69,296)
Purchase of Class A non-voting shares for cancellation	16	-	(43,711)
Cash flows used in financing activities		(46,818)	(121,783)
<b>FOREIGN EXCHANGE GAIN ON CASH HELD IN FOREIGN CURRENCY</b>			
		1,292	3,549
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
		(11,495)	(23,108)
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF THE YEAR</b>			
		89,410	112,518
<b>CASH AND CASH EQUIVALENTS AND RESTRICTED CASH, END OF THE YEAR</b>			
		\$ 77,915	\$ 89,410

Supplementary cash flow information (note 24)

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

## **REITMANS (CANADA) LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended January 30, 2021 and February 1, 2020

(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, 40<sup>th</sup> Floor, Toronto, Ontario M5V 3J7. The principal business activity of the Company is the sale of women’s wear.

#### **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 2021 and 2020 represent the 52 weeks ended January 30, 2021 and February 1, 2020, respectively.

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

Since the coronavirus disease (COVID-19) was declared a pandemic on March 11, 2020 by the *World Health Organization*, there have been significant impacts for the Company. The measures adopted by the Federal and Provincial governments in order to mitigate the spread of COVID-19 required the Company to close all of its retail locations across the country effective March 17, 2020. During the period of closure, the Company’s only sales were derived from its e-commerce channel. At the end of May 2020, the Company began re-opening its retail stores across Canada in accordance with Federal, Provincial and Municipal regulations surrounding de-confinement.

During the months of December 2020 and January 2021, certain provinces mandated renewed lockdown measures to mitigate the spread of COVID-19 forcing the temporary closure of retail stores in these provinces. The Company continued to sell through its e-commerce channel to customers during the applicable periods of closure. Subsequent to year-end, these lockdown measures were lifted and the third wave of COVID-19 mandated new temporary store closures in certain regions and provinces. See note 28.

In addition, the Company was eligible and received government assistance during the year, primarily from the Canada Emergency Wage Subsidy (CEWS), from programs introduced as a result of COVID-19. In total, the Company recognized \$37,369, of which \$35,390 was recognized as a reduction of personnel costs and rent related expenses in continuing operations and \$1,979 was recognized in discontinued operations. See notes 4 and 6.

##### *CCAA Proceedings*

On May 19, 2020, the Company obtained an initial order (the “Order”) from the Superior Court of Quebec (the “Court”) to seek protection from creditors under the Companies’ Creditors Arrangement Act (the “CCAA”). Under the terms of the Order, Ernst & Young Inc. has been appointed as the monitor (the “Monitor”). The CCAA process allows the Company to implement an operational and commercial restructuring plan to re-position the Company for long-term success (the “restructuring plan”). See note 14.

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

16, 2020. On October 16, 2020, the Court ordered a second extension of the stay period to January 22, 2021. On January 22, 2021, the Court ordered a third extension of the stay period to May 28, 2021.

On August 20, 2020, a claims process order (the “claims process”) was approved by the Court. The claims process was initiated on September 10, 2020 and ended October 21, 2020 (“claims bar date”) as described in note 2(f)(v).

### *Restructuring Plan*

On June 1, 2020, the Company announced, as part of its restructuring plan and as approved by the Monitor, the closure of the Thyme Maternity and Addition Elle brands. The restructuring plan led to the closure of all retail stores and e-commerce for both brands and to the termination of approximately 1,600 employees in its retail locations and head office. See notes 4 and 14.

In accordance with the policies of the Toronto Stock Exchange (the “TSX”), trading in the Company’s Common shares and Class A non-voting shares was suspended on May 19, 2020 and the Company’s shares were delisted from the TSX effective at the close of business on July 29, 2020. On September 3, 2020, the Company’s shares began trading on the TSX Venture Exchange.

### *Going Concern*

For the year ended January 30, 2021, the Company incurred a net loss of \$172,217. The Company’s current liabilities total \$284,539 and exceed current assets of \$216,805 as at January 30, 2021. On August 5, 2020 the Company secured interim financing (“DIP Loan”) of up to \$60,000 with a Canadian financial institution, as described in note 23.

The deterioration in the Company’s financial position since the beginning of the fiscal year, the Company’s liquidity position as of the date of the approval of these consolidated financial statements and the unpredictability of the outcome of the matters arising from the CCAA proceedings, indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

These consolidated financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. In assessing whether the going concern assumption is appropriate and whether there are material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern, management must take into account all available information about the future, including estimated future cash flows, for a period of at least twelve months following the end of the reporting period. These consolidated financial statements as at and for the year ended January 30, 2021 do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

## **c) 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”).

These consolidated financial statements were authorized for issue by the Board of Directors on April 19, 2021.

#### **d) Basis of Measurement**

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

- derivative financial instruments are measured at fair value;
- lease liabilities are initially measured at the present value of the lease payments that are not paid at the lease commencement date;
- 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*.

#### **e) 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 and strike price amounts.

#### **f) 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. Management has made significant judgments in connection with the potential impact of COVID-19 on the Company's reported assets, liabilities, revenue and expenses, and on the related disclosures, using estimates and assumptions, which are subject to significant uncertainties. The extent to which COVID-19 will continue to impact the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. These future developments include the speed of COVID-19 vaccination rollouts across Canada, the measures taken by various government authorities to contain the virus and its variants' spread for potential future waves as well as future customer shopping behavior including online sales. Accordingly, actual results could differ materially from those estimates and assumptions made by management.

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 and mortality rates. Because of the long-term nature of the plans, such estimates are subject to a high degree of uncertainty.

**(ii) 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. Breakage is an estimate of the amount of gift cards that will never be redeemed. The breakage rate is reviewed on an ongoing basis and is estimated based on historical redemption patterns.

**(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. The Company has developed assumptions regarding the quantity of merchandise to be sold below cost based on historical pattern of sales.

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

**(iv) Impairment of Non-Financial Assets**

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. COVID-19 increases the risk of uncertainty surrounding management’s estimates. Differences in estimates could affect whether property and equipment, right-of use assets and intangible assets are in fact impaired and the dollar amount of that impairment.

**(v) Liabilities subject to compromise**

On August 20, 2020, the Court rendered a claims process order establishing the rules for the creditors to submit a proof of claim. This order allowed creditors to submit their claims from September 10, 2020 until October 21, 2020 (“claims bar date”). All claims are determined as at May 19, 2020, the date of the Initial Order and therefore, the beginning of the CCAA process. The Monitor initiated the process for the identification, resolution and barring of claims in connection with the CCAA proceedings. As of the date of the approval of these consolidated financial statements, it is currently not possible to determine the quantum of the claims that will ultimately be allowed by the Court, as the Monitor’s claims identification, resolution and barring process is not completed and may take considerable time to resolve. Therefore, amounts identified as liabilities subject to compromise were based on the information available, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Liabilities subject to compromise represent the Company’s best

estimate of liabilities that will ultimately be subject to the plan of arrangement and compromise to the Company's creditors.

**(vi) Leases**

In determining the carrying amount of right-of-use assets and lease liabilities at lease inception and for lease modifications, the Company is required to estimate the incremental borrowing rate specific to each leased asset if the interest rate implicit in the lease is not readily determinable. Management determines the incremental borrowing rate of each leased asset by incorporating the Company's creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

**Critical Judgments in Applying Accounting Policies**

**(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. As at January 30, 2021, the Company's operating segments, before aggregation, have been identified as the Company's three brands: Reitmans, Penningtons and RW & CO. During the year ended January 30, 2021, the Company announced as part of its restructuring plan the closure of the Thyme Maternity and Addition Elle brands. As at and for the year ended January 30, 2021, the operating results directly attributable to both brands are presented as discontinued operations. See notes 4 and 14.

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 CODM reviews the profitability of the banner as a whole, which includes both the store and e-commerce channels. This is consistent with the omni-channel strategy adopted by the Company whereby customers can shop seamlessly in retail stores and online. The Company has aggregated its operating segments into one reportable segment because of their similar economic characteristics, customers (mainly female) and nature of products (mainly women's specialty apparel). The similarity in economic characteristics reflects the fact that the Company's operating segments operate mainly in the women 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.

**(ii) Leases**

Management exercises judgment in determining the appropriate lease term on a lease by lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option, including investments in major leaseholds and store performances. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew.

Management considers reasonably certain to be a high threshold. Changes in the economic environment or changes in the retail industry may influence management's assessment of lease term, and any changes in management's estimate of lease terms may have a material impact on the Company's consolidated balance sheets and consolidated statements of earnings (loss).

**(iii) Deferred tax assets**

Deferred tax assets are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available against which they can be utilized.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as described below for the adoption of new accounting policies:

**a) New Standards and Interpretations not yet Adopted**

*COVID-19-Related Rent Concessions*

On May 28, 2020, the IASB issued *COVID-19-Related Rent Concessions (Amendment to IFRS 16)*. The amendment is effective for annual periods beginning on or after June 1, 2020. Early adoption is permitted. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before June 30, 2021. In April 2021, the IASB extended the relief to cover rent concessions that reduce lease payments due on or before June 30, 2022. Rent concessions granted from landlords during the year ended January 30, 2021 following re-negotiation of certain leases did not meet the criteria required from *COVID-19-Related Rent Concessions (Amendment to IFRS 16)*. As a result, the practical expedient was not applied, and the amended contracts were accounted for as modified leases. See note 10.

**b) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Control exists when the Company has 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 as at 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. The Company has no subsidiaries representing individually more than 10% of the total consolidated assets and 10% of the consolidated net sales of the Company as at and for the fiscal year ended January 30, 2021.

**c) 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.

**d) 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.

**e) Discontinued operations**

A discontinued operation is a component of the Company's activities that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. When an operation is classified as a discontinued operation, the comparative consolidated statements of earnings (loss) are restated as if the operation had been discontinued from the start of the comparative year. The results from discontinued operations are excluded from the results of continuing operations and are presented as a single amount net of tax as earnings (loss) from discontinued operations in the consolidated statements of earnings (loss).

**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) Government assistance**

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

## **h) 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. 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 are depreciated over the lesser of the estimated useful life of the asset and the lease term.

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

Disposals of property and equipment include write-offs from store closures and for fully depreciated items. Gains and losses on disposal of items of property and equipment are recognized in net earnings.

## **i) 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.

## **j) Intangible Assets**

The useful lives of intangible assets 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.

Intangible assets consist of software with estimated useful lives of 3 to 5 years for the current and comparative periods. Amortization methods, useful lives and residual values are reviewed at each annual reporting date and adjusted prospectively, if appropriate.

Disposals of intangible assets include write-offs for fully depreciated items.

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.

## **k) Leases**

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the leased asset is available for use by the Company. The lease payments include fixed and in-substance fixed payments and variable lease payments that depend on an index or rate, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate. Generally, the Company uses the lessee's incremental borrowing rate for its present value calculations. Lease payments are discounted over the lease term, which includes the fixed term and renewal options that the Company is reasonably certain to exercise. Lease payments are allocated between the lease liability and a finance cost, which is recognized in finance costs over the lease term in the consolidated statements of earnings (loss).

When a contract contains both lease and non-lease components, the Company will allocate the consideration in the contract to each of the components on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Relative stand-alone prices are determined by maximizing the most observable prices for a similar asset and/or service.

Lease payments for assets that are exempt through the short-term exemption and variable payments not based on an index or rate are recognized in selling, distribution and administrative expenses as incurred. Lease incentives received for variable payment leases are deferred and amortized as a reduction in recognized variable rent expenses over the term of the related leases.

Right-of-use assets are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any re-measurement of lease liabilities. Cost is calculated as the initial measurement of the lease liability plus any initial direct costs and any lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the useful life.

In sublease arrangements where the Company is the intermediate lessor, it determines whether the sublease is finance or operating by reference to the right-of-use asset. A sublease is a finance sublease if substantially all of the risks and rewards of the head lease right-of-use asset have been transferred to the sub-lessee and the Company accounts for the sublease as two separate contracts. The Company derecognizes the right-of-use asset corresponding to the head lease and records a net investment in the finance sublease with corresponding interest income recognized in finance income in the consolidated statements of earnings (loss) and a net investment receivable recognized in trade and other receivables in the consolidated balance sheets.

## **l) Inventories**

Merchandise inventories are measured at the lower of cost, determined on an average-cost-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 center 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.

## **m) Impairment of 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 and right-of-use assets, 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.

## **n) 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 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 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)*

The Company's share option 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 (loss) for the period.

### *Performance Share Units (cash-settled)*

The Company has a Performance Share Units (“PSUs”) 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 (loss) for the period.

### **o) 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.

### **p) Revenue**

#### *Sale of merchandise*

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, which is determined based on historical patterns of 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”.

### **q) Finance Income and Finance Costs**

Finance income comprises interest and dividend income, net gains from changes in the fair value of marketable securities, as well as foreign exchange gains. Finance costs comprise interest expense, net losses from changes 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.

### **r) 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.

Current and deferred taxes attributable to amounts recognized directly in equity are also recognized directly in equity.

#### **s) 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 period.

#### **t) Share Capital**

Class A non-voting shares and Common shares are classified as equity. Incremental costs directly attributable to the issue of shares 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.

#### **u) 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, fair value through other comprehensive income or fair value through profit or loss, 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

The Company currently has no financial assets measured at fair value through OCI.

*(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. Marketable securities are 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 may enter 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 (loss) 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.

## v) 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.

### (ii) 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. DISCONTINUED OPERATIONS

On June 1, 2020, the Company announced, as part of its restructuring plan and as approved by the Monitor, the closure of the Thyme Maternity and Addition Elle brands. This announcement led to the planned closure of all retail stores and e-commerce channels related to these brands.

The financial information presented below is directly attributable to both brands. All administrative expenses and various selling and distribution expenses from shared, centralized and common functions of the Company are excluded from the determination of discontinued operations.

The operating results are presented as discontinued operations and the prior year has been restated:

**Loss from discontinued operations**

	<b>For the years ended</b>	
	<b>January 30, 2021</b>	<b>February 1, 2020</b>
Sales	\$ 74,086	\$ 164,037
Cost of goods sold <sup>(1)</sup>	<b>51,684</b>	83,496
Gross profit	<b>22,402</b>	80,541
Selling and distribution expenses <sup>(2)</sup>	<b>20,307</b>	81,097
Impairment of non-financial assets <sup>(3)</sup>	<b>22,018</b>	1,314
Restructuring costs (note 14) <sup>(4)</sup>	<b>51,720</b>	-
Impairment of goodwill <sup>(5)</sup>	-	11,843
Results from operating activities	<b>(71,643)</b>	(13,713)
Finance costs <sup>(6)</sup>	<b>458</b>	1,438
Loss before income taxes	<b>(72,101)</b>	(15,151)
Income tax expense (recovery)	<b>80</b>	(887)
Net loss income from discontinued operations	<b>\$ (72,181)</b>	\$ (14,264)
Loss per share, discontinued operations :		
Basic	\$ (1.48)	\$ (0.25)
Diluted	<b>(1.48)</b>	(0.25)

- (1) During the year ended January 30, 2021, inventories recognized as cost of goods sold amounted to \$50,168 (\$81,292 for the year ended February 1, 2020). In addition, for the year ended January 30, 2021, the Company recorded a loss of \$1,516 (\$2,204 for year ended February 1, 2020) on write-downs of inventories as a result of net realizable value being lower than cost which were recognized in cost of goods sold.
- (2) The Company recognized grant income in connection with the Canada Emergency Wage Subsidy of \$1,979 as a reduction of selling and distribution expenses for the year ended January 30, 2021 (nil for the year ended February 1, 2020).
- (3) As a result of the adverse impact of COVID-19 and as part of the restructuring plan resulting in the closure of Addition Elle and Thyme Maternity, the Company performed an impairment test for its non-financial assets. The test resulted in the recognition of impairment losses of \$8,826 related to right-of-use assets, \$10,102 related to property and equipment and \$3,090 related to intangible assets for the year ended January 30, 2021 (impairment losses of \$454 related to right-of-use assets and \$860 related to property and equipment for the year ended February 1, 2020). See note 8 for methodology and assumptions used in the impairment test.
- (4) See note 14 for details of restructuring costs included in discontinued operations. During the year ended January 30, 2021, right-of-use assets were reduced by \$28,455 and lease liabilities were reduced by \$31,478. A corresponding gain of \$3,023 was recognized in restructuring costs for the year ended January 30, 2021 as lease modifications in connection with leases that were disclaimed as part of the CCAA proceedings (nil for the year ended February 1, 2020).

- (5) During the year ended February 1, 2020, goodwill was allocated to one of the groups of cash-generating units (“CGUs”), the Addition Elle banner. The recoverable amount of the Addition Elle banner CGU was based on value in use and was determined by discounting the future cash flows generated from continuing use. As a result of the decline in Addition Elle profitability and an impairment test of goodwill, the Company recorded a goodwill impairment loss of \$11,843 in the year ended February 1, 2020 reducing the carrying amount of goodwill to nil.
- (6) Finance costs represent interest expense on lease liabilities.

The following table presents the effect of discontinued operations on the consolidated statements of cash flows:

**Net cash flows (used in) from discontinued operations**

	<b>For the years ended</b>	
	<b>January 30, 2021</b>	<b>February 1, 2020</b>
Net cash flow (used in) from operating activities	\$ (28,077)	\$ 11,580
Net cash flow used in investing activities	(762)	(3,490)
Net cash flow used in financing activities	(5,903)	(15,025)
Net cash flow for the period	<u>\$ (34,742)</u>	<u>\$ (6,935)</u>

**5. CASH AND CASH EQUIVALENTS**

	<b>January 30, 2021</b>	<b>February 1, 2020</b>
Cash	\$ 75,162	\$ 86,432
Short-term deposits <sup>(1)</sup>	-	2,978
Restricted cash <sup>(2)</sup>	2,753	-
	<u>\$ 77,915</u>	<u>\$ 89,410</u>

- (1) The Company’s cash held with banks bears interest at variable rates. Short-term deposits were bearing interest at 0.5% as at February 1, 2020.
- (2) Restricted cash represents cash held in trust by a Canadian financial institution as security held on a standby letter of credit.

**6. TRADE AND OTHER RECEIVABLES**

Trade and other receivables include an amount of \$7,922 related to government grants receivable. The Government of Canada made available to businesses affected by COVID-19 the Canada Emergency Wage Subsidy (“CEWS”), which allows companies to claim a portion of employee wages and the Canada Emergency Rent Subsidy (“CERS”), which allows companies to claim a portion of rent and occupancy costs when eligibility requirements are met. As at January 30, 2021, the Company qualified to receive both the CEWS and CERS and that there was reasonable assurance that the amount would be received from the government. The Company also intends to apply for the CEWS and CERS in subsequent application periods, where the qualification criteria continues to be met.

For the year ended January 30, 2021, the Company recognized grant income of \$31,038 related to the CEWS and \$1,448 related to the CERS as a reduction of selling and distribution expenses, and \$2,904 related to the CEWS as a reduction of administrative expenses.

## 7. INVENTORIES

During the year ended January 30, 2021, inventories recognized as cost of goods sold amounted to \$272,689 (February 1, 2020 - \$332,525). In addition, for the year ended January 30, 2021, the Company recorded \$14,419 (February 1, 2020 - \$9,085) 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.

Included in inventories is a return asset for the right to recover returned goods in the amount of \$2,484 as at January 30, 2021 (February 1, 2020 - \$1,898).

## 8. PROPERTY AND EQUIPMENT

	<b>Land</b>	<b>Buildings</b>	<b>Fixtures and Equipment</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b><u>Cost</u></b>					
Balance at February 3, 2019	\$ 5,860	\$ 36,828	\$ 102,634	\$ 74,262	\$ 219,584
Additions	-	1,375	9,922	5,120	16,417
Disposals	-	(26)	(21,751)	(30,379)	(52,156)
Balance at February 1, 2020	\$ 5,860	\$ 38,177	\$ 90,805	\$ 49,003	\$ 183,845
Balance at February 2, 2020	\$ 5,860	\$ 38,177	\$ 90,805	\$ 49,003	\$ 183,845
Additions	-	326	3,541	2,124	5,991
Disposals	-	(623)	(22,821)	(18,484)	(41,928)
Balance at January 30, 2021	\$ 5,860	\$ 37,880	\$ 71,525	\$ 32,643	\$ 147,908
<b><u>Accumulated depreciation and impairment losses</u></b>					
Balance at February 3, 2019	\$ -	\$ 14,616	\$ 56,973	\$ 52,074	\$ 123,663
Depreciation	-	1,266	13,280	7,218	21,764
Impairment loss	-	-	350	2,125	2,475
Disposals	-	(26)	(21,742)	(30,379)	(52,147)
Balance at February 1, 2020	\$ -	\$ 15,856	\$ 48,861	\$ 31,038	\$ 95,755
Balance at February 2, 2020	\$ -	\$ 15,856	\$ 48,861	\$ 31,038	\$ 95,755
Depreciation	-	1,295	7,344	2,923	11,562
Impairment loss	-	133	8,255	7,958	16,346
Disposals	-	(623)	(22,768)	(18,476)	(41,867)
Balance at January 30, 2021	\$ -	\$ 16,661	\$ 41,692	\$ 23,443	\$ 81,796
<b><u>Net carrying amounts</u></b>					
At February 1, 2020	\$ 5,860	\$ 22,321	\$ 41,944	\$ 17,965	\$ 88,090
At January 30, 2021	\$ 5,860	\$ 21,219	\$ 29,833	\$ 9,200	\$ 66,112

During the year ended January 30, 2021, the Company tested for impairment certain CGUs for which there were indications that their carrying amounts may not be recoverable. The impairment related to the property and equipment, intangible assets and right-of-use assets is due to the reduction in profitability of CGUs such that the estimated recoverable amount falls below the carrying amount of the CGU.

Impairment losses recognized as follows:

	For the year ended January 30, 2021			For the year ended February 1, 2020		
	Combined	Continuing	Discontinued	Combined	Continuing	Discontinued
Property and equipment	\$ 16,346	\$ 6,244	\$ 10,102	\$ 2,475	\$ 1,615	\$ 860
Intangible assets	4,456	1,366	3,090	-	-	-
Right-of-use assets	17,740	8,914	8,826	1,418	964	454
	<b>\$ 38,542</b>	<b>\$ 16,524</b>	<b>\$ 22,018</b>	<b>\$ 3,893</b>	<b>\$ 2,579</b>	<b>\$ 1,314</b>

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 19.0% (February 1, 2020 - 13.0%). During the years ended January 30, 2021 and February 1, 2020, no asset impairment losses were reversed following an improvement in the profitability of certain CGUs.

Depreciation expense related to property and equipment is presented as follows:

	For the year ended January 30, 2021			For the year ended February 1, 2020		
	Combined	Continuing	Discontinued	Combined	Continuing	Discontinued
Selling and distribution expenses	\$ 10,373	\$ 9,223	\$ 1,150	\$ 20,565	\$ 17,711	\$ 2,854
Administrative expenses	1,189	1,189	-	1,199	1,199	-
	<b>\$ 11,562</b>	<b>\$ 10,412</b>	<b>\$ 1,150</b>	<b>\$ 21,764</b>	<b>\$ 18,910</b>	<b>\$ 2,854</b>

Property and equipment includes an amount of \$120 (February 1, 2020 - \$1,639) that is not being depreciated. Depreciation will begin when the assets are available for use.

## 9. INTANGIBLE ASSETS

Intangible assets consist of software as follows:

	January 30, 2021	February 1, 2020
<b><u>Cost</u></b>		
Balance at beginning of the year	\$ 37,799	\$ 39,167
Additions	726	7,316
Disposals	(13,075)	(8,684)
Balance at end of the year	<u>\$ 25,450</u>	<u>\$ 37,799</u>
<b><u>Accumulated amortization and impairment losses</u></b>		
Balance at beginning of the year	\$ 17,532	\$ 17,528
Amortization	6,206	8,688
Impairment loss (note 8)	4,456	-
Disposals	(13,075)	(8,684)
Balance at end of the year	<u>\$ 15,119</u>	<u>\$ 17,532</u>
<b><u>Net carrying amounts</u></b>	<b>\$ 10,331</b>	<b>\$ 20,267</b>

Depreciation expense related to intangible assets is presented as follows:

	For the year ended January 30, 2021			For the year ended February 1, 2020		
	Combined	Continuing	Discontinued	Combined	Continuing	Discontinued
Selling and distribution expenses	\$ 3,777	\$ 3,496	\$ 281	\$ 6,750	\$ 6,342	\$ 408
Administrative expenses	2,429	2,429	-	1,938	1,938	-
	<u>\$ 6,206</u>	<u>\$ 5,925</u>	<u>\$ 281</u>	<u>\$ 8,688</u>	<u>\$ 8,280</u>	<u>\$ 408</u>

Intangible assets include an amount of \$2,570 (February 1, 2020 - \$3,334) that is not being amortized. Amortization will begin when the software is available for use.

## 10. LEASES

The Company leases all of its retail locations and certain office equipment. Retail locations typically have a fixed lease term with additional renewal options available to exercise. The Company has included renewal options in the measurement of its right-of-use assets and lease liabilities when it is reasonably certain to exercise the options.

### Right-of-use assets

	Retail locations	Office equipment	Total
Balance as at February 3, 2019	\$ 208,745	\$ 3,668	\$ 212,413
Lease additions	55,597	129	55,726
Depreciation	(67,030)	(1,594)	(68,624)
Impairment loss (note 8)	(1,418)	-	(1,418)
Balance as at February 1, 2020	<u>\$ 195,894</u>	<u>\$ 2,203</u>	<u>\$ 198,097</u>

	<b>Retail locations</b>	<b>Office equipment</b>	<b>Total</b>
Balance as at February 2, 2020	\$ 195,894	\$ 2,203	\$ 198,097
Lease additions	28,207	740	28,947
Lease modifications	(27,009)	-	(27,009)
Disclaimed leases <sup>(1)</sup>	(35,201)	-	(35,201)
Depreciation	(42,182)	(1,081)	(43,263)
Impairment loss (note 8)	(17,740)	-	(17,740)
Balance as at January 30, 2021	<b>\$ 101,969</b>	<b>\$ 1,862</b>	<b>\$ 103,831</b>

(1) Disclaimed leases represent the right-of-use assets related to certain leases terminated as part of the CCAA process. A provision related to these leases was recognized in liabilities subject to compromise. See note 14.

Depreciation expenses related to right-of-use assets presented as follows:

	For the year ended January 30, 2021			For the year ended February 1, 2020		
	Combined	Continuing	Discontinued	Combined	Continuing	Discontinued
Selling and distribution expenses	\$ 42,726	\$ 35,652	\$ 7,074	\$ 67,341	\$ 56,960	\$ 10,381
Administrative expenses	537	537	-	1,283	1,283	-
	<b>\$ 43,263</b>	<b>\$ 36,189</b>	<b>\$ 7,074</b>	<b>\$ 68,624</b>	<b>\$ 58,243</b>	<b>\$ 10,381</b>

During the year ended January 30, 2021, right-of-use assets were reduced by \$6,746 and lease liabilities were reduced by \$10,039. A corresponding gain of \$3,293 was recognized in restructuring costs for continuing operations for the year ended January 30, 2021 as lease modifications in connection with leases that were disclaimed as part of the CCAA proceedings (nil for the year ended February 1, 2020).

### Lease liabilities

	<b>January 30, 2021</b>	<b>February 1, 2020</b>
Balance at the beginning of the year	\$ 213,869	\$ 219,960
Lease additions	28,947	55,726
Lease modifications	(28,182)	-
Disclaimed leases <sup>(1)</sup>	(41,517)	-
Payment of lease liabilities	(46,818)	(69,296)
Interest expense on lease liabilities (note 19)	6,201	7,479
Lease liabilities subject to compromise (note 14)	(9,283)	-
Balance at the end of the year	<b>\$ 123,217</b>	<b>\$ 213,869</b>
Current portion of lease liabilities	<b>\$ 35,303</b>	<b>\$ 61,618</b>
Non-current portion of lease liabilities	<b>87,914</b>	<b>152,251</b>
Total lease liabilities	<b>\$ 123,217</b>	<b>\$ 213,869</b>

(1) Disclaimed leases represent the lease liabilities related to certain leases terminated as part of the CCAA process. A provision related to these leases was recognized in liabilities subject to compromise. See note 14.

The following table presents a maturity analysis of future contractual undiscounted cash flows from lease liabilities by fiscal year:

2022	\$ 43,600
2023	28,483
2024	18,722
2025	12,777
2026	8,000
Thereafter	18,392
Total undiscounted lease liabilities	<u>\$ 129,974</u>

The Company has certain retail locations where portions of the lease payments are contingent on a percentage of sales or where lease payments are made with no fixed term. During the year ended January 30, 2021, the Company recognized \$2,052 (February 1, 2020 - \$2,402) of variable lease payments and \$1,310 (February 1, 2020 - \$1,011) of lease payments with no fixed term recorded in selling and distribution expenses.

During the year ended January 30, 2021, the Company recognized expenses relating to short-term leases of \$1,650 (February 1, 2020 - \$78) and leases of low-value assets were nil (February 1, 2020 - \$45) recorded in selling and distribution expenses.

As at January 30, 2021, \$45,437 (February 1, 2020 - \$88,872) of undiscounted future lease payments are related to extension options that were not deemed to be reasonably certain to be exercised and were not included in lease liabilities.

## 11. INCOME TAX

### Income tax expense

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

	<u>For the years ended</u>	
	<u>January 30, 2021</u>	<u>February 1, 2020</u>
<b>Current tax expense (recovery)</b>		
Current year	\$ 173	\$ 22
Adjustment in respect of prior years	(23)	(261)
Current tax expense from continuing operations	<u>150</u>	<u>(239)</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(115)	23,591
Changes in tax rates	156	477
Deferred tax expense from continuing operations	<u>41</u>	<u>24,068</u>
Total tax expense from continuing operations	<u>\$ 191</u>	<u>\$ 23,829</u>
Deferred tax expense (recovery) from discontinued operations	80	(887)
Total tax expense	<u>\$ 271</u>	<u>\$ 22,942</u>

## Income tax recognized in other comprehensive income

	For the years ended					
	January 30, 2021			February 1, 2020		
	Before tax	Tax recovery (expense)	Net of tax	Before tax	Tax recovery (expense)	Net of tax
Cash flow hedges	\$ (1,027)	\$ 272	\$ (755)	\$ 1,507	\$ (401)	\$ 1,106
Defined benefit plan actuarial gains (losses)	700	-	700	(3,098)	(1,227)	(4,325)
	<u>\$ (327)</u>	<u>\$ 272</u>	<u>\$ (55)</u>	<u>\$ (1,591)</u>	<u>\$ (1,628)</u>	<u>\$ (3,219)</u>

## Reconciliation of effective tax rate

	For the years ended			
	January 30, 2021		February 1, 2020	
Loss before income taxes	\$ (99,845)		\$ (49,333)	
Income tax recovery using the Company's statutory tax rate	(26,525)	26.57%	(13,236)	26.83%
Changes in tax rates	156	(0.16%)	477	(0.97%)
Non-deductible expenses and other adjustments	221	(0.22%)	1,456	(2.95%)
Change in unrecognized deferred tax assets	26,564	(26.60%)	36,502	(73.99%)
Tax exempt income	-	-	(429)	0.87%
Effect of tax in foreign jurisdictions	(202)	0.20%	(680)	1.38%
Adjustment in respect of prior years	(23)	0.02%	(261)	0.53%
Income tax expense	<u>\$ 191</u>	<u>(0.19%)</u>	<u>\$ 23,829</u>	<u>(48.30%)</u>

## Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	January 30, 2021	February 1, 2020	January 30, 2021	February 1, 2020	January 30, 2021	February 1, 2020
Lease liabilities	\$ 27,026	\$ 51,771	\$ -	\$ -	\$ 27,026	\$ 51,771
Right-of-use assets	-	-	27,026	51,771	(27,026)	(51,771)
Property, equipment and intangible assets	2,309	2,219	-	-	2,309	2,219
Inventories	-	-	1,621	1,947	(1,621)	(1,947)
Derivative financial asset and liability	-	-	-	272	-	(272)
Other	-	-	537	-	(537)	-
	<u>\$ 29,335</u>	<u>\$ 53,990</u>	<u>\$ 29,184</u>	<u>\$ 53,990</u>	<u>\$ 151</u>	<u>\$ -</u>

## Changes in deferred tax balances during the year

	Balance February 2, 2019	Recognized in Net Earnings	Recognized in Retained Earnings	Recognized in Other Comprehensive Income	Balance February 1, 2020	Recognized in Net Earnings	Recognized in Other Comprehensive Income	Balance January 30, 2021
Lease liabilities	\$ -	\$51,771	\$ -	\$ -	\$ 51,771	\$ (24,745)	\$ -	\$ 27,026
Right-of-use assets	-	(51,771)	-	-	(51,771)	24,745	-	(27,026)
Property, equipment and intangible assets	15,819	(13,600)	-	-	2,219	90	-	2,309
Inventories	(1,420)	(527)	-	-	(1,947)	326	-	(1,621)
Trade and other payables	2,696	(2,676)	(20)	-	-	-	-	-
Derivative financial liability (asset)	129	-	-	(401)	(272)	-	272	-
Pension liability	5,649	(4,422)	-	(1,227)	-	-	-	-
Tax benefit of non- capital losses carried forward	1,932	(1,932)	-	-	-	-	-	-
Other	24	(24)	-	-	-	(537)	-	(537)
	\$ 24,829	\$(23,181)	\$ (20)	\$ (1,628)	\$ -	\$ (121)	\$ 272	\$ 151

As a result of the uncertainties related to the Company's ability to generate future profitable operations, the Company has determined that it is not probable that future taxable profits will be available in Canada against which deferred tax assets can be utilized. Accordingly, no deferred tax assets have been recognized for the Canadian operations.

## Unrecognized deferred tax assets

Deferred income tax assets were not recognized on the consolidated balance sheets in respect of the following items:

	January 30, 2021	February 1, 2020
Non-capital losses carry-forward	\$ 20,460	\$ 20,745
Deductible temporary differences	65,450	19,282
Allowable capital losses carry-forward	3,133	3,134
Unrecognized deferred tax assets	\$ 89,043	\$ 43,161

The non-capital losses carry-forward expire between 2034 and 2041. The deductible temporary differences and allowable capital losses carry-forward do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because, as at January 30, 2021, it was not probable that sufficient future taxable income will be available from the Canadian operations to utilize the benefits.

## 12. TRADE AND OTHER PAYABLES

	<u>January 30, 2021</u>	<u>February 1, 2020</u>
Trade payables	\$ 2,098	\$ 75,132
Personnel liabilities	10,898	20,441
Other non-trade payables	12,687	9,367
Refund liability	4,439	3,489
Deferred rent and payables relating to premises	1,400	1,245
	<u>\$ 31,522</u>	<u>\$ 109,674</u>

Included in prepaid expenses as at January 30, 2021 is an amount of \$18,382 (nil as at February 1, 2020) representing deposits to vendors for ordered merchandise.

## 13. DEFERRED REVENUE

	<u>January 30, 2021</u>	<u>February 1, 2020</u>
Loyalty points and awards granted under loyalty programs	\$ 209	\$ 847
Unredeemed gift cards	12,253	14,195
	<u>\$ 12,462</u>	<u>\$ 15,042</u>

## 14. LIABILITIES SUBJECT TO COMPROMISE AND RESTRUCTURING COSTS

As at January 30, 2021, in connection with the CCAA proceedings, the Company identified the following unsecured liabilities subject to compromise:

Trade payables and accruals	\$ 74,823
Lease liabilities	9,283
Provision for disclaimed leases	51,905
Pension liabilities (note 15)	21,014
Termination benefit liabilities	12,786
Sales and income taxes payable	6,404
Other non-trade payables	27,868
	<u>\$ 204,083</u>

The liabilities that are not subject to the CCAA proceedings are excluded from the liabilities subject to compromise.

### Restructuring costs

As described in note 2(b), as part of its restructuring plan and as approved by the Monitor, the Company closed all retail stores and e-commerce for Thyme Maternity and Addition Elle and terminated approximately 1,600 employees at its retail locations and head office. In connection with the restructuring plan and the CCAA proceedings, the following restructuring costs were recognized:

	For the year ended January 30, 2021		
	Combined	Continuing	Discontinued
Provision for disclaimed leases	\$ 52,455	\$ 9,726	\$ 42,729
Gain on lease modifications and disclaimed leases (notes 4 and 10)	(8,216)	(5,193)	(3,023)
Termination benefits	12,786	7,365	5,421
Inventory purchases cancellation costs and other expenses	15,725	9,132	6,593
Legal, Monitor and other consulting fees	4,875	4,875	-
DIP lender fees	611	611	-
	<u>\$ 78,236</u>	<u>\$ 26,516</u>	<u>\$ 51,720</u>

## 15. PENSION LIABILITY

The following tables present reconciliations of the pension obligations, the plan assets and the funded status of the retirement benefit plans. In connection with CCAA proceedings, the pre-petition portion of the pension liability related to the SERP of \$21,014, for which the fair value of plan assets is \$nil, has been reclassified to liabilities subject to compromise and the SERP is expected to be terminated effective with the settlement of these liabilities through the plan of arrangement to be entered into under CCAA. See note 2(f)(v) and 14.

### Funded Status

	Fair value of plan assets	Defined benefit obligation	Pension liability
<b>As at January 30, 2021</b>			
Plan	\$ 22,676	\$ 25,768	\$ (3,092)
<b>As at February 1, 2020</b>			
Plan	\$ 23,627	\$ 26,737	\$ (3,110)
SERP	-	21,103	(21,103)
Total	<u>\$ 23,627</u>	<u>\$ 47,840</u>	<u>\$ (24,213)</u>

	For the years ended					
	January 30, 2021			February 1, 2020		
	Plan	SERP	Total	Plan	SERP	Total
<b>Movement in the present value of the defined benefit obligation</b>						
Defined benefit obligation, beginning of year	\$ 26,737	\$ 21,103	\$ 47,840	\$ 23,880	\$ 20,143	\$ 44,023
Current service cost	1,503	394	1,897	1,440	(49)	1,391
Interest cost	694	-	694	884	721	1,605
Employee contributions	109	-	109	165	-	165
Actuarial gain - experience	(166)	-	(166)	(300)	(931)	(1,231)
Actuarial loss - financial assumptions	173	-	173	3,841	2,364	6,205
Benefits paid from plan assets	(3,282)	-	(3,282)	(3,173)	-	(3,173)
Benefits paid directly by the Company	-	(483)	(483)	-	(1,145)	(1,145)
SERP pension liability reclassified to liabilities subject to compromise	-	(21,014)	(21,014)	-	-	-
Defined benefit obligation, end of year	<b>\$ 25,768</b>	<b>\$ -</b>	<b>\$ 25,768</b>	<b>\$ 26,737</b>	<b>\$ 21,103</b>	<b>\$ 47,840</b>

**Movement in the fair value of plan assets**

Fair value of plan assets, beginning of year	\$ 23,627	\$ -	\$ 23,627	\$ 22,980	\$ -	\$ 22,980
Return on plan assets	707	-	707	1,876	-	1,876
Interest income on plan assets	584	-	584	812	-	812
Employer contributions	1,099	483	1,582	1,115	1,145	2,260
Employee contributions	109	-	109	165	-	165
Benefits paid	(3,281)	(483)	(3,764)	(3,173)	(1,145)	(4,318)
Plan administration costs	(169)	-	(169)	(148)	-	(148)
Fair value of plan assets, end of year	<b>\$ 22,676</b>	<b>\$ -</b>	<b>\$ 22,676</b>	<b>\$ 23,627</b>	<b>\$ -</b>	<b>\$ 23,627</b>

For the year ended January 30, 2021, the net defined benefit obligation can be allocated to the plans' participants as follows:

- Active plan participants 37% (2020 - 7%)
- Retired plan members 57% (2020 - 89%)
- Deferred and other plan participants 6% (2020 - 4%)

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:

	January 30, 2021		February 1, 2020	
<b>Equity securities</b>				
Canadian – pooled funds	\$ 8,213	36%	\$ 7,901	33%
Canadian – real estate fund	1,118	5%	1,150	5%
Foreign – pooled funds	4,049	18%	4,192	18%
Total equity securities	13,380	59%	13,243	56%
<b>Debt securities – fixed income pooled funds</b>	9,030	40%	10,100	43%
<b>Cash and cash equivalents</b>	266	1%	284	1%
Total	<b>\$ 22,676</b>	<b>100%</b>	<b>\$ 23,627</b>	<b>100%</b>

The Company's pension expense was as follows:

	For the years ended					
	January 30, 2021			February 1, 2020		
	Plan	SERP	Total	Plan	SERP	Total
<b>Pension costs recognized in net earnings</b>						
Current service cost	\$ 1,503	\$ 394	\$ 1,897	\$ 1,440	\$ (49)	\$ 1,391
Net interest cost on net pension liability	110	-	110	72	721	793
Plan administration costs	169	-	169	148	-	148
Pension expense	<b>\$ 1,782</b>	<b>\$ 394</b>	<b>\$ 2,176</b>	<b>\$ 1,660</b>	<b>\$ 672</b>	<b>\$ 2,332</b>

Pension expense for the year ended January 30, 2021, has been recorded in selling and distribution expenses for an amount of \$1,207 (February 1, 2020 - \$1,207) and in administrative expenses for an amount of \$969 (February 1, 2020 - \$1,125) in the consolidated statements of earnings (loss).

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					
	January 30, 2021			February 1, 2020		
	Plan	SERP	Total	Plan	SERP	Total
Cumulative loss in retained earnings at the beginning of the year	\$ 2,134	\$ 5,534	\$ 7,668	\$ 469	\$ 4,101	\$ 4,570
(Gain) loss recognized during the year	(700)	-	(700)	1,665	1,433	3,098
Cumulative loss in retained earnings at the end of the year	<b>\$ 1,434</b>	<b>\$ 5,534</b>	<b>\$ 6,968</b>	<b>\$ 2,134</b>	<b>\$ 5,534</b>	<b>\$ 7,668</b>
(Gain) loss recognized during the year, net of tax			<b>\$ (700)</b>			<b>\$ 4,325</b>

### Actuarial assumptions

Principal actuarial assumptions used were as follows:

	For the years ended	
	January 30, 2021	February 1, 2020
Accrued benefit obligation:		
Discount rate	2.60%	2.60%
Salary increase	4.00%	4.00%
Mortality	2014 Private Sector Canadian Pensioner's Mortality Table, projected generationally using Scale MI- 2017, adjusted for pension size	2014 Private Sector Canadian Pensioner's Mortality Table, projected generationally using Scale MI- 2017, adjusted for pension size
Employee benefit expense:		
Discount rate	2.60%	2.60%
Salary increase	4.00%	4.00%

### Sensitivity of Key Actuarial Assumptions

The following table outlines the key assumptions for the years ended January 30, 2021 and February 1, 2020 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			
	January 30, 2021	February 1, 2020		
	Plan	Plan	SERP	Total
<b>(Decrease) increase in defined benefit obligation</b>				
<b>Discount rate</b>				
Impact of increase of 1%	\$ (3,593)	\$ (3,504)	\$ (2,160)	\$ (5,664)
Impact of decrease of 1%	\$ 4,176	\$ 4,032	\$ 2,406	\$ 6,438
<b>Salary increase or decrease</b>				
Impact of increase of 1%	\$ 650	\$ 619	\$ (12)	\$ 607
Impact of decrease of 1%	\$ (634)	\$ (605)	\$ 12	\$ (593)
<b>Lifetime expectancy</b>				
Impact of increase of 1 year in expected lifetime of plan members	\$ 689	\$ 700	\$ 617	\$ 1,317

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 \$647 in employer contributions to be paid to the Plan in the year ending January 29, 2022. The weighted average durations of the Plan is approximately 14 years as at January 30, 2021 (February 1, 2020 - 14 and 11 years, respectively, for the Plan and SERP).

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, 2018 and the next required valuation will be as of December 31, 2021.

## 16. 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			
	January 30, 2021		February 1, 2020	
	Number of shares (in 000's)	Carrying amount	Number of shares (in 000's)	Carrying amount
<b>Common shares</b>				
Balance at beginning and end of the year	13,440	\$ 482	13,440	\$ 482
<b>Class A non-voting shares</b>				
Balance at beginning of the year	35,427	26,924	49,890	37,915
Purchase of shares under substantial issuer bid	-	-	(14,463)	(10,991)
Balance at end of year	35,427	26,924	35,427	26,924
Total share capital	48,867	\$ 27,406	48,867	\$ 27,406

### *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 under a substantial issuer bid*

On June 17, 2019, the Company announced the terms to its substantial issuer bid (the "Offer") to purchase for cancellation up to 15,000,000 of its issued and outstanding Class A non-voting shares at a price of \$3.00 per share. The Offer commenced on June 20, 2019 and expired on July 26, 2019. The Offer resulted in the Company purchasing 14,462,944 Class A non-voting shares having a carrying amount of \$10,991, for an aggregate consideration of \$43,711 (including related transaction costs of \$322), which were subsequently cancelled.

The excess of the purchase price over the carrying amount of the shares of \$35,413 (including tax of \$2,693) was recognized as a reduction to retained earnings.

*Accumulated Other Comprehensive Income (“AOCI”)*

AOCI is comprised of the following:

	<b>Cash Flow Hedges</b>	<b>Foreign Currency Translation Differences</b>	<b>Total AOCI</b>
Balance at February 2, 2020	\$ 754	\$ (981)	\$ (227)
Net change in fair value of cash flow hedges (net of tax of \$3,229)	8,815	-	8,815
Transfer of realized gain on cash flow hedges to inventory (net of tax of \$79)	218	-	218
Reclassification of cash flow hedges from OCI to foreign exchange gain within finance income (net of tax of \$3,583) (note 25)	(9,787)	-	(9,787)
Change in foreign currency translation differences	-	127	127
Balance at January 30, 2021	\$ -	\$ (854)	\$ (854)
Balance at February 3, 2019	\$ (352)	\$ (932)	\$ (1,284)
Net change in fair value of cash flow hedges (net of tax of \$582)	1,609	-	1,609
Transfer of realized gain on cash flow hedges to inventory (net of tax of \$181)	(503)	-	(503)
Change in foreign currency translation differences	-	(49)	(49)
Balance at February 1, 2020	\$ 754	\$ (981)	\$ (227)

*Dividends*

The following dividends were declared and paid by the Company:

	<b>For the years ended</b>	
	<b>January 30, 2021</b>	<b>February 1, 2020</b>
Common shares and Class A non-voting shares	\$ -	\$ 8,776
Dividends per share	\$ -	\$ 0.15

During the year ended February 1, 2020, the Board of Directors suspended the quarterly dividend declaration.

**17. 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 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 plan, the granting of options and the related vesting period, which is normally up to 4 years, are at the discretion of the Board of Directors and the options have a maximum term of up to 7 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. Subsequent to year-end, the share option plan was amended to terminate the SARs program. The change had no impact to these consolidated financial statements.

The changes in outstanding share options were as follows:

	For the years ended			
	January 30, 2021		February 1, 2020	
	Options (in 000's)	Weighted Average Exercise Price	Options (in 000's)	Weighted Average Exercise Price
Outstanding, at beginning of year	1,759	\$ 8.20	1,938	\$ 8.06
Forfeited	(402)	6.03	(179)	6.66
Outstanding, at end of year	1,357	\$ 8.84	1,759	\$ 8.20
Options exercisable, at end of year	1,325	\$ 8.90	1,727	\$ 8.23

No share option awards were granted or exercised during the years ended January 30, 2021 and February 1, 2020. 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.

The following table summarizes information about share options outstanding at January 30, 2021:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	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	357	3.18 years	\$ 5.91	357	\$ 5.91
\$6.31 - \$6.75	575	3.65	6.69	543	6.71
\$11.68 - \$15.00	425	1.00	14.22	425	14.22
	<b>1,357</b>	<b>2.70 years</b>	<b>\$ 8.84</b>	<b>1,325</b>	<b>\$ 8.90</b>

For the year ended January 30, 2021, the Company recognized compensation costs of \$12 relating to its share option plan (February 1, 2020 - \$38), 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.

No PSUs were granted during the year ended January 30, 2021 (440,000 PSUs at a weighted average share price of \$3.23 for the year ended February 1, 2020).

The changes in outstanding PSUs were as follows:

	<b>For the years ended</b>	
	<b>January 30, 2021</b>	<b>February 1, 2020</b>
	<b>PSUs (in 000's)</b>	<b>PSUs (in 000's)</b>
Outstanding, at beginning of year	<b>760</b>	770
Granted	-	440
Forfeited	<b>(172)</b>	(267)
Expired	<b>(138)</b>	(183)
Outstanding, at end of year	<b>450</b>	760

As at January 30, 2021, the Company did not expect to meet the minimum non-market performance conditions required for all issued PSUs to vest. As a result, the Company did not recognize share-based compensation costs related to PSUs for the year ended January 30, 2021 (recovery of \$66 in selling and distribution expenses and \$23 in administrative expenses for the year ended February 1, 2020).

## 18. COMMITMENTS

As at January 30, 2021, financial commitments 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:

	<b>Purchase Obligations</b>	<b>Other Service Contracts</b>	<b>Total</b>
Within 1 year	\$ 102,915	\$ 3,812	\$ 106,727
Within 2 years	5,421	3,561	8,982
Within 3 years	3,462	2,559	6,021
Within 4 years	105	1,544	1,649
Within 5 years	-	901	901
Subsequent years	-	-	-
<b>Total</b>	<b>\$ 111,903</b>	<b>\$ 12,377</b>	<b>\$ 124,280</b>

For the timing of payments under lease obligations, refer to note 10.

## 19. FINANCE INCOME AND FINANCE COSTS

	<b>For the years ended</b>	
	<b>January 30, 2021</b>	<b>February 1, 2020</b>
Dividend income from marketable securities	\$ -	\$ 1,427
Interest income	436	1,746
Foreign exchange gain <sup>(1)</sup>	<b>13,461</b>	-
Finance income	<b>13,897</b>	3,173
Interest expense on lease liabilities	<b>5,744</b>	6,041
Net change in fair value and loss on disposal of marketable securities <sup>(2)</sup>	-	8,264
Foreign exchange loss	-	475
Finance costs	<b>5,744</b>	14,780
Net finance income (costs) recognized in net loss	<b>\$ 8,153</b>	<b>\$ (11,607)</b>

(1) Included in foreign exchange gain for the year ended January 30, 2021, is a realized gain of \$9,741 on maturity and disposal of foreign exchange contracts (nil for the year ended February 1, 2020). See note 25.

(2) During the year ended February 1, 2020, the Company disposed of its portfolio of marketable securities for proceeds of \$41,425.

## 20. LOSS PER SHARE

The number of shares (in thousands) used in the basic and diluted loss per share and basic and diluted loss per share from continuing and discontinued operations calculations is as follows:

	<b>For the years ended</b>	
	<b>January 30, 2021</b>	<b>February 1, 2020</b>
Weighted average number of shares per basic loss per share calculations	48,867	55,980
Weighted average number of shares per diluted loss per share calculations	48,867	55,980

As at January 30, 2021 and February 1, 2020, all share options were excluded from the calculation of diluted loss 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.

## 21. RELATED PARTY TRANSACTIONS

### *Transactions with Key Management Personnel*

Key management personnel are those persons (both executive and non-executive) who have the authority and responsibility for planning, directing and controlling the activities of the entity - directly or indirectly. The Board of Directors (which includes the Chief Executive Officer and President) has the responsibility for planning, directing and controlling the activities of the Company and are considered key management personnel. The Board of Directors participate in the share option plan, as described in note 17.

Compensation expense for key management personnel is as follows:

	<b>For the years ended</b>	
	<b>January 30, 2021</b>	<b>February 1, 2020</b>
Salaries, directors' fees and short-term benefits	\$ 1,336	\$ 1,631
Share-based compensation costs	8	8
	<b>\$ 1,344</b>	<b>\$ 1,639</b>

#### *Other Related-Party Transactions*

During the year ended January 30, 2021, the Company incurred \$1,262 (February 1, 2020 - \$416) for legal services rendered by a law firm connected to certain members of the Board of Directors. These transactions are recorded at the amount of consideration paid as established and agreed to by the related parties.

Liabilities subject to compromise include pension liabilities related to the SERP of \$7,194 payable to the Company's President and Chief Executive Officer and Chief Financial Officer. See notes 14 and 15.

## **22. PERSONNEL EXPENSES**

	<b>For the years ended</b>	
	<b>January 30, 2021</b>	<b>February 1, 2020</b>
Wages, salaries and employee benefits	\$ 104,469	\$ 191,917
Expenses related to defined benefit plans	2,176	2,205
Share-based compensation costs (recovery of)	12	(50)
	<b>\$ 106,657</b>	<b>\$ 194,072</b>

## **23. CREDIT FACILITY AND GUARANTEES**

At January 30, 2021, the Company had interim ("DIP Loan") financing with a Canadian financial institution consisting of a revolving credit facility of up to \$60,000 (\$65,000 at February 1, 2020 comprised of maximum overdraft protection of \$25,000 and \$40,000 restricted to securing letters of credit, see note 26) and the facilities available for securing letters of credit of up to \$5,000 (or its U.S. dollar equivalent). As at January 30, 2021, \$396 (February 1, 2020 - \$2,982) of the demand 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. The DIP Loan bears interest at the lender's prime rate plus 5.00% per annum on the outstanding principal amount of the DIP Loan. As at January 30, 2021, no amount was drawn down on the DIP Loan. The Company secured this DIP Loan subsequent to obtaining the Order from the Court to seek protection from its creditors under CCAA as described in note 2(b).

## 24. SUPPLEMENTARY CASH FLOW INFORMATION

	For the years ended	
	January 30, 2021	February 1, 2020
Non-cash transactions:		
Additions to property and equipment and intangible assets included in trade and other payables	\$ 1,874	\$ 1,382
Lease liabilities included in liabilities subject to compromise	9,283	-
Income taxes payable included in liabilities subject to compromise	184	-

For the year ended January 30, 2021, payments of lease liabilities of \$46,818 include interest of \$6,201 (payments of lease liabilities of \$69,296 including interest of \$7,479 for the year ended February 1, 2020).

## 25. 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 1, 2020						
	Carrying Amount				Fair Value		
	Fair Value through Profit or Loss	Fair Value of Hedging Instruments	Amortized Cost	Total	Level 1	Level 2	Total
<b>Financial assets measured at fair value through profit or loss</b>							
Derivative financial asset	\$ -	\$ 1,124	\$ -	\$ 1,124	\$ -	\$ 1,124	\$ 1,124
<b>Financial liabilities measured at fair value through profit or loss</b>							
Derivative financial liability	\$ -	\$ 348	\$ -	\$ 348	\$ -	\$ 348	\$ 348

There were no transfers between levels of the fair value hierarchy for the year ended February 1, 2020.

### Derivative financial instruments

The Company had entered into forward contracts with its banks on the U.S. dollar. These foreign exchange contracts extended over a period normally not exceeding twelve months and were normally designated as cash flow hedges to mitigate foreign exchange risk that is part of its U.S. dollar purchases. The Company determined that it no longer met the criteria for these purchases as a result of the Company's effort to reduce future inventory purchases in response to the uncertainty surrounding COVID-19 and the restructuring plan (notes 2(b) and 14). During the year ended January 30, 2021, \$130,000 of future U.S. dollar denominated purchases, hedged by outstanding forward contracts with an accumulated gain of \$9,787 (net of tax of \$3,583), were no longer expected to occur. As a result, the Company is no longer designating these forward

contracts for hedge accounting and has reclassified the accumulated unrealized gain associated with these forward contracts from other comprehensive income to net earnings as part of finance income (notes 16 and 19) during the year ended January 30, 2021.

During the year ended January 30, 2021, the Company has temporarily paused its hedging program due to the uncertainties surrounding future inventory purchase commitments as a result of COVID-19 and the restructuring plan (notes 2(b) and 14). During the year ended January 30, 2021, forward contracts with a notional amount of \$60,000 U.S. dollars matured and the Company disposed of all remaining outstanding forward contracts with a notional amount of \$115,000 U.S. dollars, resulting in a foreign exchange gain of \$9,741 recognized directly to net earnings as part of finance income. See note 19.

Details of the foreign exchange contracts outstanding:

	Average Strike Price	Notional Amount in U.S. Dollars	Derivative Financial Asset	Derivative Financial Liability	Net
January 30, 2021	\$ -	\$ -	\$ -	\$ -	\$ -
February 1, 2020	\$ 1.318	\$ 175,000	\$ 1,124	\$ (348)	\$ 776

## 26. 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, 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. The Company's trade and other receivables consist primarily of government assistance receivable and 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 January 30, 2021 and February 1, 2020, expected credit loss on these financial assets is not significant.

As at January 30, 2021, the Company's maximum exposure to credit risk for these financial instruments was as follows:

Cash and cash equivalents	\$ 77,915
Trade and other receivables	<u>10,668</u>
	<u><b>\$ 88,583</b></u>

### *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 January 30, 2021, the Company's current liabilities total \$284,539 (of which \$204,083 is subject to compromise in connection with CCAA proceedings (note 14)) and current liquid assets consisting of cash and cash equivalents total \$77,915. During the year ended January 30, 2021, the Company's lenders terminated the maximum overdraft protection of \$25,000 and the facilities available for letters of credit of \$40,000 had been reduced to a maximum of \$1,000. Given the deterioration in the Company's financial position during the year ended January 30, 2021, the effective elimination of its previous credit facilities and the continued uncertainty surrounding COVID-19, on May 19, 2020, the Company obtained an initial order (the "Order") to seek protection from creditors under the CCAA (notes 2(b)). On August 5, 2020, the Company secured interim ("DIP Loan") financing with a Canadian financial institution. See note 23.

### *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 U.S. dollar 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 may enter into certain qualifying foreign exchange contracts that it designated as cash flow hedging instruments. This results in mark-to-market foreign exchange adjustments, for qualifying hedged instruments, being recorded as a component of other comprehensive income. As described in note 25, the uncertainty surrounding COVID-19 and the outcome of the CCAA proceedings, future purchases for which foreign exchange contracts were designated as cash flow hedges are no longer expected to occur. Consequently, foreign exchange gains and losses on merchandise purchases are recorded in net earnings instead of in other comprehensive income.

The Company has performed a sensitivity analysis on its U.S. dollar denominated financial instruments, which consist principally of cash and cash equivalents of \$39,849 and trade payables of \$53,874 to determine how a change in the U.S. dollar exchange rate would impact net earnings. On January 30, 2021, a 10% 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 \$1,791 increase or decrease, respectively, in the Company's net earnings for the year ended January 30, 2021.

### *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. See note 23 for credit facility details.

The Company has performed a sensitivity analysis on interest rate risk at January 30, 2021 to determine how a change in interest rates would impact net earnings. For the year ended January 30, 2021, the Company earned interest income of \$436 on its cash and cash equivalents. An increase or decrease of 50 basis points in the average interest rate earned during the year would have increased net earnings by \$309 or decreased net earnings by \$259. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

## **27. CAPITAL MANAGEMENT**

The Company's objectives in managing capital are:

- to ensure sufficient liquidity to support its operations and 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 and its access to credit facilities described in note 23. 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 traditionally funded these requirements out of its internally-generated cash flows. The Company does not have any long-term financing debt (other than lease liabilities). As at January 30, 2021, the Company recognized \$204,083 of liabilities subject to compromise as current liabilities as part of the CCAA claims process described in note 2(b). The timing and quantum of claims that will be allowed by the Court and ultimately paid to the Company's creditors is currently not possible to determine as described in note 2(f)(v). During the CCAA process, the Monitor oversees the Company's cash flow and capital management.

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 any share repurchase program activities. In order to conserve cash to finance its ongoing operations, the Company has suspended the declaration and payment of any dividends. 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.

## **28. SUBSEQUENT EVENTS**

### *Temporary store closures*

Subsequent to year-end, during February 2021, the mandated lockdown measures in certain regions and provinces mentioned in note 2(b) were lifted and the Company's stores affected by these measures were re-opened. In March and April 2021, a third wave of COVID-19 and its variants have forced additional mandated lockdown measures in certain regions and provinces and the Company experienced further temporary store closures. The Company can continue to sell through its e-commerce channel to customers during the applicable periods of closure until further extensions or changes are announced and will continue to follow all local government and health organization guidelines.