

REITMANS

(CANADA) LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the 13 and 26 weeks ended July 30, 2022 and the audited annual consolidated financial statements for the fiscal year ended January 29, 2022 and the notes thereto which are available on the SEDAR website at www.sedar.com. This MD&A is dated September 22, 2022.

All financial information contained in this MD&A and Reitmans' unaudited condensed consolidated interim financial statements has been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), as issued by the International Accounting Standards Board ("IASB"). All monetary amounts shown in the tables in this MD&A are in millions of Canadian dollars unless otherwise indicated, except per share and strike price amounts. The unaudited condensed consolidated interim financial statements and this MD&A were reviewed by Reitmans' Audit Committee and were approved by its Board of Directors on September 22, 2022.

Unless otherwise indicated, all comparisons of results for the 13 weeks ended July 30, 2022 ("second quarter of 2023") are against results for the 13 weeks ended July 31, 2021 ("second quarter of 2022") and all comparisons of results for the 26 weeks ended July 30, 2022 ("year to date fiscal 2023") are against results for the 26 weeks ended July 31, 2021 ("year to date fiscal 2022"). Additional information about Reitmans is available on the Company's website at www.reitmanscanadalimited.com or on the SEDAR website at www.sedar.com.

COVID-19

As at January 30, 2021, the Company had 240 out of its 415 stores (58% of its store network) closed as a consequence of governmental lockdown directives. This partial lockdown of the Company's retail store network continued into the first quarter of 2022. Even though restrictions were relaxed and some stores reopened, in April 2021, a third wave resulted in increased COVID-19 cases requiring some further governmental lockdowns. As at July 31, 2021, there were no stores temporarily closed as a consequence of governmental lockdown directives. While all of the Company's stores were open throughout the year to date fiscal 2023, store capacity restrictions were still in effect by most provincial authorities during the first few months of the first quarter of 2023. All of the provincially imposed store capacity restrictions were lifted by the end of the first quarter of 2023 and the Company's store network has been operating at full capacity since the restrictions were lifted.

During fiscal 2022 and to a lesser degree in the first quarter of 2023, the Company obtained financial assistance from federal programs ("Federal subsidies"), such as the Canada Emergency Wage Subsidy ("CEWS"), the Canada Emergency Rent Subsidy program ("CERS") and the Tourism and Hospitality Recovery Program ("THRP"), under which the subsidies were consolidated starting from October 24, 2021. Such measures and financial assistance mitigated the financial impact of COVID-19 on the Company's business.

The extent to which COVID-19 and its variants will continue to impact the Company's business, including its supply chain, consumer shopping behavior and consumer demand, including online shopping, will depend on future developments, which are highly uncertain and cannot be predicted

at this time. These future developments include emergence of new variants of COVID-19 resulting in a resurgence of positive COVID-19 cases, measures taken by various government authorities to contain the virus and its variants spread for potential future waves, future customer shopping behavior including online sales and the impact of shipping delays to the supply chain. As the Company navigates through the challenges caused by COVID-19 and its variants, its focus is to adapt to customers' changing product preferences, closely monitor its cash position and control its spending, while managing its inventory levels in line with the change in demand behavior since COVID-19 started. Current financial information may not necessarily be indicative of future operating results.

Emergence from the Companies' Creditors Arrangement Act ("CCAA") proceedings in fiscal 2022

On January 12, 2022, in accordance with the court-approved Plan of Arrangement ("the Plan"), the Company paid an aggregate amount of \$95.0 million in full and final settlement of all claims from its creditors affected by the Plan, and emerged from the CCAA proceedings. Concurrently, the Company secured a senior secured asset-based revolving facility with a Canadian financial institution of up to \$115.0 million (or its U.S. dollar equivalent), which matures on January 12, 2025. See Note 10 of the unaudited condensed consolidated interim financial statements for the second quarter of 2023.

Discontinued Operations

During fiscal 2021, as part of its restructuring plan, the Company closed the Thyme Maternity and Addition Elle brands which resulted in the termination of approximately 1,600 employees in its retail locations and head office and, as a result, these results and cash flows have been classified as discontinued operations. Discontinued operations are excluded from the net earnings from continuing operations and are presented as earnings (loss) from discontinued operations, net of tax, as a separate line item in the consolidated statements of earnings (loss). As the results from discontinued operations are shown for comparable purposes only and no amounts have been presented as discontinued operations in fiscal 2023, this MD&A does not include a discussion of discontinued operations. See Notes 4 and 13 of the unaudited condensed consolidated interim financial statements for the second quarter of 2023.

FORWARD-LOOKING STATEMENTS

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

This MD&A contains forward-looking statements about the Company's objectives, plans, goals, expectations, aspirations, strategies, financial condition, results of operations, cash flows,

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

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

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

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

NON-GAAP FINANCIAL MEASURES & SUPPLEMENTARY FINANCIAL MEASURES

This MD&A makes reference to certain non-GAAP measures. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for the Company's analysis of its financial information reported under IFRS.

NON-GAAP FINANCIAL MEASURES

This MD&A discusses adjusted earnings from continuing operations before interest, taxes, depreciation and amortization ("Adjusted EBITDA from continuing operations") and adjusted results from operating activities ("Adjusted ROA") and both are considered non-GAAP financial measures. This MD&A also indicates Adjusted EBITDA from continuing operations as a percentage of sales and is considered a non-GAAP financial ratio. The intent of presenting Adjusted EBITDA from continuing operations and Adjusted ROA is to provide additional useful information to investors and analysts. Adjusted EBITDA from continuing operations is defined as net earnings (loss) before income tax expense/recovery, interest income, interest expense, depreciation, amortization, impairment of non-financial assets, adjusted for the impact of certain items, including a deduction of interest expense and depreciation relating to leases accounted for under IFRS 16, *Leases*, Federal subsidies and restructuring costs and recoveries. Management believes that Adjusted EBITDA from continuing operations is an important indicator of the Company's ability to generate liquidity through operating cash flow to fund working capital needs and fund capital expenditures and uses the metric for this purpose. Management believes that Adjusted EBITDA from continuing operations as a percentage of sales indicates how much liquidity is generated for each dollar of sales. The exclusion of interest income and expenses, other than interest expense related to lease liabilities as explained hereafter, eliminates the impact on earnings derived from non-operational activities. The exclusion of depreciation, amortization and impairment charges, other than depreciation related to right-of-use assets as explained hereafter, eliminates the non-cash impact, and the exclusion of restructuring items and Federal subsidies presents the results of the on-going business. Under IFRS 16, *Leases*, the characteristics of some leases result in lease payments being recognized in net earnings in the period in which the performance or use occurs while other leases are recorded as right-of-use assets with a corresponding lease liability recognized, which results in depreciation of those assets and interest expense from those liabilities. Management is presenting its Adjusted EBITDA from continuing operations to reflect the payments of its store and equipment lease obligations on a consistent basis. As such, the initial add-back of depreciation of right-of-use assets and interest on lease obligations are removed from the calculation of Adjusted EBITDA from continuing operations, as this better reflects the operational cash flow impact of its leases.

Adjusted ROA is defined as results from operating activities excluding Federal subsidies and restructuring costs and recoveries. Management believes that Adjusted ROA provides a more relevant indicator in assessing current operational performance. The exclusion of restructuring items and Federal subsidies presents the on-going operational performance of the business.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The tables below provide a reconciliation of net earnings from continuing operations to Adjusted EBITDA from continuing operations and results from operating activities to Adjusted ROA:

	For the second quarter of		Year to date fiscal	
	2023	2022	2023	2022
Net earnings from continuing operations	\$ 37.3	\$ 23.9	\$ 35.6	\$ 23.9
Depreciation, amortization and net impairment losses on property and equipment, and intangible assets	3.1	4.3	8.2	8.9
Depreciation on right -of-use assets	7.3	7.5	13.1	15.2
Interest income	(0.2)	(0.1)	(0.2)	(0.1)
Interest expense on lease liabilities	1.3	1.0	2.3	2.2
Interest expense on revolving credit facility	0.1	-	0.4	-
Income tax expense (recovery)	(0.5)	0.2	(0.5)	0.2
Rent impact from IFRS 16, <i>Leases</i> ¹	(8.6)	(8.5)	(15.4)	(17.4)
Federal subsidies	-	(6.2)	(1.2)	(16.5)
Restructuring costs (recoveries), net	(0.2)	(5.9)	0.4	(12.4)
Adjusted EBITDA from continuing operations ²	\$ 39.6	\$ 16.2	\$ 42.7	\$ 4.0
Adjusted EBITDA from continuing operations as % of Sales	17.3%	9.4%	11.1%	1.4%

¹ Rent Impact from IFRS 16, *Leases* is comprised as follows;

	For the second quarter of		Year to date fiscal	
	2023	2022	2023	2022
Depreciation on right-of use assets	\$ 7.3	\$ 7.5	\$ 13.1	\$ 15.2
Interest expense on lease liabilities	1.3	1.0	2.3	2.2
Rent impact from IFRS 16, <i>Leases</i>	\$ 8.6	\$ 8.5	\$ 15.4	\$ 17.4

² As a result of the current definition of Adjusted EBITDA from continuing operations, the comparative figure has been restated to include the rent impact from IFRS 16, *Leases* of \$8.5 million for the second quarter of 2022 and \$17.4 million for the year to date of fiscal 2022 and to exclude Federal subsidies recognized of \$6.2 million for the second quarter of 2022 and \$16.5 million recognized for the year to date of fiscal 2022. Management believes that the current definition of Adjusted EBITDA better reflects the operational cash flow of the Company.

	For the second quarter of		Year to date fiscal	
	2023	2022	2023	2022
Results from operating activities	\$ 38.0	\$ 25.0	\$ 37.6	\$ 25.4
Federal subsidies	-	(6.2)	(1.2)	(16.5)
Restructuring costs (recoveries), net	(0.2)	(5.9)	0.4	(12.4)
Adjusted ROA	\$ 37.8	\$ 12.9	\$ 36.8	\$ (3.5)

SUPPLEMENTARY FINANCIAL MEASURES

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

As highlighted in the section entitled “COVID-19”, at various times throughout fiscal 2022, the Company was required to temporarily close some of its retail stores as a consequence of governmental lockdown directives. Due to the unprecedented nature of COVID-19 and its significant impact on consumers and our ability to service our customers, management believes that comparable sales are not currently representative of the underlying trends of our business and consequently would not provide a meaningful metric in comparisons of year-over-year sales results. Accordingly, this MD&A does not include a discussion of the Company’s comparable sales in respect of the second quarter of and year to date fiscal 2023. Management will continue to monitor and evaluate the effects of COVID-19 and will resume the evaluation of comparable sales when year-over-year results are more representative.

This MD&A discloses the Company’s e-commerce net sales as a percentage of the Company’s net sales and is defined as the net sales recognized from its e-commerce in relation to the Company’s net sales. This supplementary financial measure does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies. Management uses this measure to analyze trends in the customers’ cross-channel behaviour for operating and capital expenditure funding allocation decisions.

OVERVIEW

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

The logo for Reitmans, featuring the brand name in a stylized, handwritten-style script.

The Reitmans banner, founded in 1926, operates stores averaging 4,700 sq. ft. and is Canada’s leading specialty fashion destination. With a strong online presence and store locations across the country, Reitmans customers account for over one-third of Canadian women. Reitmans ambition is to offer a feel-good and inclusive space featuring on-trend styles in the most extensive size range, from 0-22.

PENN.

PENNINGTONS

PENN. is Canada's premiere destination for plus-size fashion, ranging from sizes 14 to 32. Through championing body diversity and size inclusivity, the brand believes that women deserve to experience the freedom that comes with feeling confident in their clothing. PENN. operates stores averaging 6,000 sq. ft. in power centres across Canada.

RW&CO.

RW&CO. operates stores averaging 4,500 sq. ft. in premium locations in major shopping malls as well as on their e-commerce site. Specializing in menswear and womenswear, the brand delivers versatile, well-crafted collections and exceptional brand experiences to an open and inclusive brand community.

RETAIL BANNERS

	Number of stores at January 29, 2022	Q1 Openings	Q2 Openings	Q2 Closings	Number of stores at July 30, 2022	Number of stores at July 31, 2021
Reitmans	237	-	-	(1)	236	242
PENN.	90	2	1	(2)	91	91
RW&CO.	77	-	-	-	77	78
Total stores	404	2	1	(3)	404	411

The viability of each store and its location is constantly monitored and assessed for continuing profitability. In most cases when a store is closed, merchandise at that location is sold off in the normal course of business and any unsold merchandise remaining at the closing date is generally transferred to other stores operating under the same banner for sale in the normal course of business.

OPERATING RESULTS FOR THE SECOND QUARTER OF 2023 COMPARED TO THE SECOND QUARTER OF 2022

	Second Quarter of 2023	Second Quarter of 2022	\$ Change	% Change
Sales	\$ 229.2	\$ 172.3	\$ 56.9	33.0%
Cost of goods sold	90.5	76.6	13.9	18.1%
Gross profit	138.7	95.7	43.0	44.9%
Gross profit %	60.5%	55.5%		
Selling, distribution and administrative expenses ¹	100.7	70.7	30.0	42.4%
Results from operating activities	38.0	25.0	13.0	52.0%
Net finance costs	(1.2)	(0.9)	(0.3)	33.3%
Earnings before income taxes	36.8	24.1	12.7	52.7%
Income tax (recovery) expense	(0.5)	0.2	(0.7)	n/a
Net earnings from continuing operations	\$ 37.3	\$ 23.9	\$ 13.4	56.1%
Earnings from discontinued operations, net of tax	-	10.2	(10.2)	n/a
Net earnings	\$ 37.3	\$ 34.1	\$ 3.2	9.4%
Adjusted EBITDA from continuing operations ²	\$ 39.6	\$ 16.2	\$ 23.4	n/a
Adjusted ROA ²	\$ 37.8	\$ 12.9	\$ 24.9	n/a
Earnings per share:				
Basic	\$ 0.76	\$ 0.70	\$ 0.06	8.6%
Diluted	0.76	0.70	0.06	8.6%
Earnings per share, continuing operations:				
Basic	\$ 0.76	\$ 0.49	\$ 0.27	55.1%
Diluted	0.76	0.49	0.27	55.1%

¹ Includes \$0.2 million of restructuring costs recovery for the second quarter of 2023 (a restructuring costs recovery of \$5.9 million for the second quarter of 2022).

² This is a Non-GAAP Financial Measure. See section entitled “Non-GAAP Financial Measures” for reconciliations of these measures.

Sales

Sales for the second quarter of 2023 increased by \$56.9 million, or 33.0%, to \$229.2 million. More of the Company’s stores were open as there were no government imposed lockdowns during the second quarter of 2023 as compared to a partial lockdown of the Company’s stores network during the second quarter of 2022 (see section entitled “COVID-19”). Increased customer traffic in stores, higher average transaction value and less markdowns and promotional discounting contributed to the increase in sales, despite an overall net reduction of 7 stores. The Company’s e-commerce sales continue to be strong representing approximately 25%¹ of the total sales for the second quarter of 2023.

¹ This is a supplementary financial measure. See section entitled “Supplementary Financial Measures”.

Gross Profit

Gross profit for the second quarter of 2023 increased \$43.0 million to \$138.7 million as compared with \$95.7 million for the second quarter of 2022. Gross profit as a percentage of sales for the second quarter of 2023 increased to 60.5% from 55.5% for the second quarter of 2022. The increase both in gross profit and as a percentage of sales is primarily attributable to lower markdowns and promotional activity in the second quarter of 2023, partially offset by higher supply chain costs,

including merchandise freight costs as ongoing global shipping industry disruptions required utilizing air and premium-rate ocean freight shipments to meet customer demand.

Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses of \$100.7 million for the second quarter of 2023 increased by \$30.0 million or 42.4%, as compared to the second quarter of 2022 primarily attributable to the following:

- increased store operating costs due primarily to an increase in store personnel wages, higher credit card fees due to the improved sales performance and higher rent expenditures as a result of lease arrangements tied to percentage of sales performance;
- a \$6.4 million increase in performance incentive plan expense, which plan expense is based upon the forecasted attainment of operating performance targets;
- a \$6.2 million decrease in total combined financial support from Federal subsidy programs which has been recognized as a reduction of selling, distribution and administrative expenses;
- a \$5.7 million decrease in restructuring recoveries due primarily to the \$0.2 million of restructuring recoveries realized during the second quarter of 2023 as compared to a recovery of restructuring costs of \$5.9 million realized during the second quarter of 2022;
- higher overall freight costs due to a \$1.9 million non-recurring volume rebate received during the second quarter of 2022;

partially offset by,

- a \$1.4 million decrease in depreciation, amortization and net impairment losses due primarily to the decrease in the number of stores and the Company's controlled spending in property and equipment and intangible assets.

Net Finance Costs

Net finance costs were \$1.2 million for the second quarter of 2023 as compared to \$0.9 million for the second quarter of 2022. The change of \$0.3 million is primarily attributable to the higher interest expense as the amount of lease liabilities increased as compared to the second quarter of 2022, and interest expense incurred on borrowings under the secured asset-based revolving credit facility obtained on January 12, 2022.

Income Taxes

The income tax recovery of \$0.5 million for the second quarter of 2023 is mainly comprised of adjustments in respect of prior year periods, net of the estimated tax expense related to the operations of a foreign subsidiary. The tax expense for the second quarter of fiscal 2022 of \$0.2 million is comprised of the estimated tax amount related to a foreign subsidiary. As a result of the uncertainties related to the Company's ability to generate future profitable operations and management's assessment that it is not probable that future taxable profits will be available, the income tax recovery for the second quarter of 2023 was impacted by not recognizing deferred tax assets on all temporary differences and operating losses carried forward relating to its Canadian operations.

Net Earnings from continuing operations

Net earnings from continuing operations for the second quarter of 2023 was \$37.3 million (\$0.76 basic and diluted earnings per share) as compared with \$23.9 million net earnings (\$0.49 basic and diluted earnings per share) for the second quarter of 2022. The increase in net earnings of \$13.4

million is primarily attributable to the increase of gross profits and increase in income tax recovery, partially offset by an increase in overall operating costs, the reduction of Federal subsidies and restructuring recoveries and an increase in net finance costs.

Adjusted EBITDA from continuing operations

Adjusted EBITDA from continuing operations for the second quarter of 2023 was \$39.6 million as compared to \$16.2 million for the second quarter of 2022. The increase of \$23.4 million is primarily attributable to the increase of \$43.0 million in gross profit, partially offset by an increase in operating costs (excluding Federal subsidies, restructuring costs and recoveries, depreciation, amortization and net impairment of non-financial assets but including interest expense and depreciation relating to leases accounted for under IFRS 16, *Leases* to reflect an estimate of rent expense) of \$19.6 million, as noted above.

Adjusted ROA

Adjusted ROA for the second quarter of 2023 was \$37.8 million as compared with \$12.9 million for the second quarter of 2022. The increase in Adjusted ROA of \$24.9 million is primarily attributable to the increase of \$43.0 million in gross profit, partially offset by an increase in operating costs (excluding Federal subsidies and restructuring costs and recoveries) of \$18.1 million, as noted above.

OPERATING RESULTS FOR THE YEAR TO DATE FISCAL 2023 COMPARED TO THE YEAR TO DATE FISCAL 2022

	Year to date Fiscal 2023	Year to date Fiscal 2022	\$ Change	% Change
Sales	\$ 383.1	\$ 293.5	\$ 89.6	30.5%
Cost of goods sold	160.4	137.9	22.5	16.3%
Gross profit	222.7	155.6	67.1	43.1%
Gross profit %	58.1%	53.0%		
Selling, distribution and administrative expenses ¹	185.1	130.2	54.9	42.2%
Results from operating activities	37.6	25.4	12.2	48.0%
Net finance costs	(2.5)	(1.3)	(1.2)	(92.3)%
Earnings before income taxes	35.1	24.1	11.0	45.6%
Income tax (recovery) expense	(0.5)	0.2	(0.7)	n/a
Net earnings from continuing operations	\$ 35.6	\$ 23.9	\$ 11.7	49.0%
Earnings from discontinued operations, net of tax	-	10.2	(10.2)	(100.0)%
Net earnings	\$ 35.6	\$ 34.1	\$ 1.5	4.4%
Adjusted EBITDA from continuing operations ²	\$ 42.7	\$ 4.0	\$ 38.7	n/a
Adjusted ROA ²	\$ 36.8	\$ (3.5)	\$ 40.3	n/a
Earnings per share:				
Basic	\$ 0.73	\$ 0.70	\$ 0.03	4.3%
Diluted	0.73	0.70	0.03	4.3%
Earnings per share, continuing operations:				
Basic	\$ 0.73	\$ 0.49	\$ 0.24	49.0%
Diluted	0.73	0.49	0.24	49.0%

¹ Includes \$0.4 million of restructuring costs for the year to date fiscal 2023 (a restructuring costs recovery of \$12.4 million for the year to date fiscal 2022).

² This is a Non-GAAP Financial Measure. See section entitled "Non-GAAP Financial Measures and Supplementary Financial Measures" for reconciliations of these measures.

Sales

Sales for the year to date fiscal 2023 increased by \$89.6 million, or 30.5%, to \$383.1 million. More of the Company's stores were open as there were no government imposed lockdowns during the year to date fiscal 2023 as compared to a partial lockdown of the Company's stores network during the year to date fiscal 2022 (see section entitled "COVID-19"). Increased customer traffic in stores, higher average transaction value and less markdowns and promotional discounting contributed to the increase in sales, despite an overall net reduction of 7 stores. The Company's e-commerce sales continue to be strong representing approximately 27%¹ of the total sales for the year to date fiscal 2023.

¹ This is a supplementary financial measure. See section entitled "Supplementary Financial Measures".

Gross Profit

Gross profit for the year to date fiscal 2023 increased \$67.1 million to \$222.7 million as compared with \$155.6 million for the year to date fiscal 2022. Gross profit as a percentage of sales for the year to date fiscal 2023 increased to 58.1% from 53.0% for the year to date fiscal 2022. The increase both in gross profit and as a percentage of sales is primarily attributable to lower markdowns and promotional activity in the year to date fiscal 2023 combined with a favourable foreign exchange impact on U.S. dollar denominated purchases included in cost of goods sold, partially offset by higher

supply chain costs, including merchandise freight costs as ongoing global shipping industry disruptions required utilizing air and premium-rate ocean freight shipments to meet customer demand.

Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses of \$185.1 million for the year to date fiscal 2023 increased by \$54.9 million or 42.2%, as compared to the year to date fiscal 2022 primarily attributable to the following:

- increased store operating costs due primarily to an increase in store personnel wages, higher digital media advertising spend, higher credit card fees due to the improved sales performance and higher rent expenditures as a result of lease arrangements tied to percentage of sales performance;
 - a \$15.3 million decrease in total combined financial support from Federal subsidy programs which has been recognized as a reduction of selling, distribution and administrative expenses;
 - a \$12.8 million increase in restructuring costs due primarily to the \$0.4 million of restructuring costs incurred during the year to date fiscal 2023 as compared to a recovery of restructuring costs of \$12.4 million realized during the year to date fiscal 2022;
 - a \$6.4 million increase in performance incentive plan expense, which plan expense is based upon the forecasted attainment of operating performance targets;
 - higher overall freight costs due primarily to a \$1.9 million non-recurring volume rebate received during the year to date fiscal 2022;
- partially offset by,
- a \$2.8 million decrease in depreciation, amortization and net impairment losses due primarily to the decrease in the number of stores, a reduction in the average balance of right-of-use assets throughout the year to date fiscal 2023 and the Company's controlled spending in property and equipment and intangible assets.

Net Finance Costs

Net finance costs were \$2.5 million for the year to date fiscal 2023 as compared to \$1.3 million for the year to date fiscal 2022. The change of \$1.2 million is primarily attributable to the foreign exchange impact on U.S. denominated monetary assets and liabilities and higher interest expense as a result of the borrowings under the secured asset-based revolving credit facility obtained on January 12, 2022.

Income Taxes

The income tax recovery of \$0.5 million for the year to date fiscal 2023 is mainly comprised of adjustments in respect of prior year periods net of the estimated tax expense related to the operations of a foreign subsidiary. The tax expense for the year to date fiscal 2022 of \$0.2 million is comprised of the estimated tax amount related to a foreign subsidiary. As a result of the uncertainties related to the Company's ability to generate future profitable operations and management's assessment that it is not probable that future taxable profits will be available, the income tax recovery for the second quarter of 2023 was impacted by not recognizing deferred tax assets on all temporary differences and operating losses carried forward relating to its Canadian operations.

Net Earnings from continuing operations

Net earnings from continuing operations for the year to date fiscal 2023 was \$35.6 million (\$0.73 basic and diluted earnings per share) as compared with \$23.9 million (\$0.49 basic and diluted earnings per share) for the year to date fiscal 2022. The increase in net earnings of \$11.7 million is primarily attributable to the increase in gross profits and income tax recovery, partially offset by an increase in overall operating costs, the reduction of Federal subsidies and restructuring recoveries and an increase in net finance costs.

Adjusted EBITDA from continuing operations

Adjusted EBITDA from continuing operations for the year to date fiscal 2023 was \$42.7 million as compared to \$4.0 million for the year to date fiscal 2022. The increase of \$38.7 million is primarily attributable to the increase of \$67.1 million in gross profit, partially offset by a decrease of \$0.6 million in foreign exchange gain and an increase in operating costs (excluding Federal subsidies, restructuring costs and recoveries, depreciation, amortization and net impairment of non-financial assets but including interest expense and depreciation relating to leases accounted for under IFRS 16, *Leases* to reflect an estimate of rent expense) of \$27.8 million, as noted above.

Adjusted ROA

Adjusted ROA for the year to date fiscal 2023 was \$36.8 million as compared with a loss of \$3.5 million for the year to date fiscal 2022. The increase in Adjusted ROA of \$40.3 million is primarily attributable to the increase of \$67.1 million in gross profit, partially offset by an increase in operating costs (excluding Federal subsidies and restructuring costs and recoveries) of \$26.8 million, as noted above.

SUMMARY OF QUARTERLY RESULTS

The results of operations for any quarter are not necessarily indicative of the results of operations for the fiscal year. The table below presents selected consolidated financial data for the eight most recently completed quarters. All references to “2023” are to the Company’s fiscal year ending January 28, 2023, “2022” are to the Company’s fiscal year ended January 29, 2022 and “2021” are to the Company’s fiscal year ended January 30, 2021.

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2023	2022	2023	2022	2022	2021	2022	2021
Sales	\$ 229.2	\$ 172.3	\$ 153.9	\$ 121.3	\$ 190.2	\$ 144.7	\$ 178.2	\$ 163.4
Net earnings (loss) from continuing operations ⁵	37.3	23.9	(1.7)	(0.0)	97.2	(10.9)	22.0	(14.9)
Earnings from discontinued operations, net of tax ⁵	-	10.2	-	-	-	-	4.8	0.4
Net earnings (loss)	37.3 ¹	34.1 ¹	(1.7) ²	(0.0) ²	97.2 ³	(10.9) ³	26.8 ⁴	(14.5) ⁴
Earnings (loss) per share								
Basic	\$ 0.76 ¹	\$ 0.70 ¹	\$ (0.04) ²	\$ (0.00) ²	\$ 1.99 ³	\$ (0.22) ³	\$ 0.55 ⁴	\$ (0.30) ⁴
Diluted	0.76 ¹	0.70 ¹	(0.04) ²	(0.00) ²	1.99 ³	(0.22) ³	0.55 ⁴	(0.30) ⁴
Earnings (loss) per share, continuing operations:								
Basic	\$ 0.76	\$ 0.49	\$ (0.04)	\$ (0.00)	\$ 1.99	\$ (0.22)	\$ 0.45	\$ (0.31)
Diluted	0.76	0.49	(0.04)	(0.00)	1.99	(0.22)	0.45	(0.31)

¹ During the second quarter of 2023, net earnings includes restructuring costs recovery of \$0.2 million and a reversal of impairment on non-financial assets of \$0.5 million. During the second quarter of 2022, net earnings includes the impact of Federal subsidies totalling \$6.2 million, restructuring costs recovery of \$16.1 million and a reversal of impairment on non-financial assets of \$0.3 million.

² During the first quarter of 2023, net loss includes a \$1.2 million impairment of non-financial assets, restructuring costs of \$0.6 million, partially offset by the impact of Federal subsidies totalling \$1.2 million. During the first quarter of 2022, net loss includes the impact of Federal subsidies totalling \$10.3 million, restructuring costs recovery of \$6.6 million and a reversal of impairment on non-financial assets of \$0.2 million.

³ During the fourth quarter of 2022, net earnings includes the impact of Federal subsidies totalling \$4.7 million, gain realized on the settlement of liabilities subject to compromise of \$88.6 million following the Company’s exit from CCAA protection, partially offset by restructuring costs of \$0.5 million and \$2.2 million of an impairment of non-financial assets. During the fourth quarter of 2021, net loss includes the impact of Federal subsidies totalling \$9.1 million, restructuring costs recovery of \$4.5 million, partially offset by \$3.4 million of an impairment of non-financial assets.

⁴ During the third quarter of 2022, net earnings includes the impact of Federal subsidies totalling \$1.6 million, restructuring costs recovery of \$5.1 million and a reversal of impairment on non-financial assets of \$0.1 million. During the third quarter of 2021, net loss includes the impact of an impairment of non-financial assets of \$3.9 million, restructuring costs of \$2.6 million, partially offset by \$6.8 million of a Federal subsidy.

⁵ During fiscal 2021, the Company closed the Thyme Maternity and Addition Elle brands which resulted in the termination of approximately 1,600 employees in its retail locations and head office and, as a result, these results had been classified as discontinued operations in fiscal 2022 and in fiscal 2021. Discontinued operations are excluded from the net earnings (loss) from continuing operations and were presented as earnings (loss) from discontinued operations, net of tax, as a separate line item in the consolidated statements of earnings (loss). There were no earnings or loss presented as discontinued operations during the first and second quarter of 2023.

BALANCE SHEET

Selected line items from the Company's balance sheets as at July 30, 2022 and January 29, 2022 are presented below:

	July 30, 2022	January 29, 2022	\$ Change	% Change
Cash	\$ 38.2	\$ 25.5	\$ 12.7	49.8%
Trade and other receivables	4.9	7.6	(2.7)	(35.5)%
Inventories	153.8	119.0	34.8	29.2%
Prepaid expenses and other assets	31.2	42.6	(11.4)	(26.8)%
Property and equipment & intangible assets	65.2	71.6	(6.4)	(8.9)%
Right-of-use assets	71.5	45.0	26.5	58.9%
Pension asset	0.7	0.1	0.6	n/a%
Revolving credit facility	-	29.6	(29.6)	(100.0)%
Trade and other payables	57.1	34.5	22.6	65.5%
Deferred revenue	12.0	13.5	(1.5)	(11.1)%
Income taxes payable	0.8	0.5	0.3	60.0%
Lease liabilities (current and non-current)	79.1	52.3	26.8	51.2%

Changes at July 30, 2022 as compared to January 29, 2022 were primarily due to the following:

- cash increased \$12.7 million due to an increase in cash generated from operations, primarily due to improved sales performance, partially offset by the funds repaid under the secured asset-based revolving credit facility in the year to date fiscal 2023;
- trade and other receivables decreased primarily due to receipts of wage subsidies from the Federal government, partially offset by higher credit card trade and insurance claim receivables;
- inventories are higher by \$34.8 million primarily due to the normal build-up for the fall selling seasons, and the Company continuing to accelerate merchandise deliveries to mitigate global shipping industry disruptions;
- prepaid expenses and other assets are primarily comprised of supplier deposits and prepayments, prepaid software and maintenance contracts. The decrease of \$11.4 million is primarily due to a reduction in supplier deposits following the Company's exit from CCAA protection in mid-January 2022;
- property and equipment & intangible assets decreased by \$6.4 million. During the year to date fiscal 2023, \$1.8 million of additions had been spent primarily on store renovations and head office hardware and software. Depreciation and amortization of \$7.6 million and an impairment of \$0.6 million on property and equipment and intangible assets were recognized in the year to date fiscal 2023 (\$9.4 million of depreciation and amortization and an impairment reversal of \$0.5 million on property and equipment and intangible assets were recognized in the year to date fiscal 2022);
- right-of-use assets represent the right-to-use the retail stores and certain equipment over their lease terms. Right-of-use assets increased by \$26.5 million primarily due to lease additions of \$40.2 million signed in the year to date fiscal 2023. Depreciation and amortization of \$13.1 million were recognized in the year to date fiscal 2023 (\$15.2 million in the year to date fiscal 2022). No impairment charges were recognized in the year to date fiscal 2022 and 2023;
- pension asset increased largely due to a \$0.7 million net actuarial gain recognized in other comprehensive income arising from the remeasurement of the pension obligation in the year to date fiscal 2023, partially offset by an excess amount of \$0.1 million of pension expense over pension contributions;
- the revolving credit facility decreased by \$29.6 million as amounts borrowed under the facility had been paid as at July 30, 2022;
- trade and other payables increased by approximately \$22.6 million primarily due to the timing of payments related to trade payables, an increase in sales tax liabilities and an increase in the

refund liability related to sales returns as a result of the increase in sales during the second quarter of 2023;

- deferred revenue decreased largely due to gift card redemptions, partially offset by an increase in awards granted under customer loyalty programs.
- income taxes payable consists of estimated net tax liabilities of a foreign subsidiary. The increase is primarily due to estimated taxes for a foreign subsidiary during the year to date fiscal 2023;
- lease liabilities represent the present value of the Company's obligations to make lease payments for its store and equipment leases. During the year to date fiscal 2023, lease liabilities increased by lease additions of \$40.2 million and interest expense of \$2.3 million, offset by lease payments of \$15.1 million and lease terminations of \$0.6 million.

OPERATING AND FINANCIAL RISK MANAGEMENT

Detailed descriptions of the Company's operating and financial risks are included in the Company's annual MD&A for the fiscal year ended January 29, 2022 (which is available on the SEDAR website at www.sedar.com). In addition to the risks and factors impacting performance described at that time, investors, shareholders, customers and employees have focused increasingly on the environmental, social and governance ("ESG") practices of companies, including those associated with climate change. As a strong supporter of ESG initiatives, from sustainability focused products to diversity and inclusion, the Company has established an ESG team to develop and finalize its ESG strategies and is planning to issue its first ESG report in fiscal 2024.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

As at July 30, 2022, the Company had current assets of \$230.9 million (July 31, 2021 – \$240.3 million; January 29, 2022 - \$194.7 million) and current liabilities of \$97.2 million (July 31, 2021 - \$268.3 million, including liabilities subject to compromise of \$193.4 million; January 29, 2022 - \$99.0 million) and no long-term debt (other than lease liabilities). As at July 30, 2022, included in the Company's current assets is cash of \$38.2 million (July 31, 2021 - \$87.6 million; January 29, 2022 - \$25.5 million). Cash is held in interest bearing accounts mainly with a major Canadian financial institution.

In late fiscal 2022, as part of its emergence from CCAA proceedings, the Company entered into a senior secured asset-based revolving facility with a Canadian financial institution of up to \$115.0 million ("borrowing base"), or its U.S. dollar equivalent, including facilities available for securing letters of credit of up to \$35.0 million (or its U.S. dollar equivalent). This committed facility matures on January 12, 2025 and is used to finance the ongoing operations of the Company. As at July 30, 2022, the Company's borrowing base was \$95.3 million (January 29, 2022 - \$90.7 million) and no amount was drawn under the credit facility (January 29, 2022 - \$29.6 million). Refer to Note 10 in the unaudited condensed consolidated interim financial statements for the second quarter of 2023.

In the year to date fiscal 2023, the Company invested \$3.3 million in capital expenditures, on a cash basis, primarily in store renovations and head office hardware and software additions. Excluding any extended economic uncertainty impact from COVID-19, the Company expects to invest approximately \$10.0 million in capital expenditures in fiscal 2023 in various areas such as store renovations, visual capacity projects, digital platform enhancements, customer service engagement and other corporate initiatives.

FINANCIAL COMMITMENTS

There have been no material changes in the Company's financial commitments that are outside of the ordinary course of the Company's business from those described in the Company's audited annual consolidated financial statements for the year ended January 29, 2022.

OUTSTANDING SHARE DATA

At September 22, 2022, 13,440,000 Common shares and 35,427,322 Class A non-voting shares of the Company were issued and outstanding. Each Common share entitles the holder thereof to one vote at meetings of shareholders of the Company. As at September 22, 2022, the Company has a total of 2,745,000 share options outstanding at an average exercise price of \$2.77. Each share option entitles the holder to purchase one Class A non-voting share of the Company at an exercise price established based on the market price of the shares at the date the option was granted.

OFF-BALANCE SHEET ARRANGEMENTS

Derivative Financial Instruments

The Company in its normal course of business must make long lead-time commitments for a significant portion of its merchandise purchases, in some cases as long as twelve months. Most of these purchases must be paid for in U.S. dollars. The Company considers a variety of strategies designed to manage the cost of its continuing U.S. dollar long-term commitments, including spot rate purchases and foreign currency forward contracts with maturities generally not exceeding twelve months and are normally designated as cash flow hedges. During the year to date fiscal 2023 and 2022, the Company has only used spot rate purchases of U.S. dollars to meet its foreign merchandise commitments.

RELATED PARTY TRANSACTIONS

There have been no significant changes in related party transactions from those disclosed in the Company's audited annual consolidated financial statements for the year ended January 29, 2022.

FINANCIAL INSTRUMENTS

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

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

CRITICAL ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

Key Sources of Estimation Uncertainty

There have been no significant changes in the key sources of estimation uncertainty and judgements made in relation to the accounting policies applied as disclosed in the Company's annual MD&A for the year ended January 29, 2022 (which is available on the SEDAR website at www.sedar.com).

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

New amendments to standards and interpretations not yet effective for the second quarter of 2023 for which earlier adoption was permitted have not been applied in preparing the unaudited condensed consolidated interim financial statements as at and for the 26 weeks ended July 30, 2022. The amendments to standards and interpretations that are currently under review:

- Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of accounting Estimates (Amendments to IAS 8)

Further information on these modifications can be found in Note 3 of the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2023.

ADOPTION OF NEW ACCOUNTING POLICY

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The adoption of this amendment to IAS 37 did not have a significant impact on the Company's unaudited condensed consolidated interim financial statements as at and for the 26 weeks ended July 30, 2022.

Further information on the adoption of this new policy can be found in Note 3 of the unaudited condensed consolidated interim financial statements as at and for the year to date fiscal 2023.