

REITMANS

(CANADA) LIMITED

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of Reitmans (Canada) Limited and its subsidiaries ("Reitmans" or the "Company") should be read in conjunction with the unaudited condensed consolidated interim financial statements of Reitmans as at and for the 13 weeks ended April 29, 2023 and the audited annual consolidated financial statements for the fiscal year ended January 28, 2023 and the notes thereto which are available on the SEDAR website at www.sedar.com. This MD&A is dated June 14, 2023.

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 June 14, 2023.

Unless otherwise indicated, all comparisons of results for the 13 weeks ended April 29, 2023 ("first quarter of 2024") are against results for the 13 weeks ended April 30, 2022 ("first quarter of 2023").

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

FORWARD-LOOKING STATEMENTS

All of the statements contained herein, other than statements of fact that are independently verifiable at the date hereof, are forward-looking statements. Such statements, based as they are on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown, many of which are beyond the Company's control, including statements regarding the Company's 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 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 more 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 the following non-GAAP financial measures: adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA"), adjusted results from operating activities ("Adjusted ROA") and working capital. This MD&A also indicates Adjusted EBITDA as a percentage of net sales and is considered a non-GAAP financial ratio. Net sales represent the sale of merchandise less discounts and returns. The intent of presenting Adjusted EBITDA and Adjusted ROA is to provide additional useful information to investors and analysts. Adjusted EBITDA is defined as net earnings before income tax expense/recovery, interest income, interest expense, loss on foreign currency translation differences reclassified to net earnings, depreciation, amortization, net 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 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 this metric for this purpose. Management believes that Adjusted EBITDA as a percentage of net sales indicates how much liquidity is generated for each dollar of net 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 net 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 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, 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. 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.

Working capital is defined as current assets less current liabilities. Management believes that working capital provides information that is helpful to understand the financial condition of the Company. Due to the seasonality of the Company's business, it is more relevant to compare the working capital position at the same point in time.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The tables below provide a reconciliation of net loss to Adjusted EBITDA, results from operating activities to Adjusted ROA and the composition of working capital:

	For the first quarter of	
	2024	2023
Net loss	\$ (3.8)	\$ (1.7)
Depreciation, amortization and net impairment losses on property and equipment, and intangible assets	3.6	5.1
Depreciation on right-of-use assets	7.8	5.8
Interest income	(0.9)	-
Interest expense on lease liabilities	1.6	1.0
Interest expense on revolving credit facility	-	0.3
Loss on foreign currency translation differences reclassified to net earnings	1.0	-
Income tax recovery	(1.1)	-
Rent impact from IFRS 16, <i>Leases</i> ¹	(9.4)	(6.8)
Federal subsidies	-	(1.2)
Restructuring costs	-	0.6
Adjusted EBITDA²	\$ (1.2)	\$ 3.1
Adjusted EBITDA as % of Net sales	(0.7)%	2.0%

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

	For the first quarter of	
	2024	2023
Depreciation on right-of use assets	\$ 7.8	\$ 5.8
Interest expense on lease liabilities	1.6	1.0
Rent impact from IFRS 16, <i>Leases</i>	\$ 9.4	\$ 6.8

² As a result of the current definition of Adjusted EBITDA, the comparative figure has been restated to include the rent impact from IFRS 16, *Leases* of \$6.8 million for the first quarter of 2023. Management believes that the current definition of Adjusted EBITDA better reflects the operational cash flow of the Company.

	For the first quarter of	
	2024	2023
Results from operating activities	\$ (3.6)	\$ (0.4)
Federal subsidies	-	(1.2)
Restructuring costs	-	0.6
Adjusted ROA	\$ (3.6)	\$ (1.0)

	As at April 29, 2023	As at April 30, 2022	As at January 28, 2023
Current assets	\$ 233.7	\$ 219.3	\$ 265.9
Current liabilities	94.0	122.5	122.9
Working capital	\$ 139.7	\$ 96.8	\$ 143.0

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 net sales generated by stores that have been continuously open during both of the periods being compared and include e-commerce net 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 net sales and considers it useful in helping to determine what portion of new net 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.

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:

Reitmans

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 5,800 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 28, 2023	Q1 Openings	Q1 Closings	Number of stores at April 29, 2023	Number of stores at April 30, 2022
Reitmans	235	1	(1)	235	237
Penningtons	91	1	(1)	91	92
RW&CO.	80	-	-	80	77
Total stores	406	2	(2)	406	406

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 FIRST QUARTER OF 2024 COMPARED TO THE FIRST QUARTER OF 2023

	First Quarter of 2024	First Quarter of 2023	\$ Change	% Change
Net sales	\$ 165.0	\$ 153.9	\$ 11.1	7.2%
Cost of goods sold	76.9	69.9	7.0	10.0%
Gross profit	88.1	84.0	4.1	4.9%
Gross profit %	53.4%	54.6%		
Selling, distribution and administrative expenses	91.7	84.4 ¹	7.3	8.6%
Results from operating activities	(3.6)	(0.4)	(3.2)	n/a
Net finance costs	(1.3)	(1.3)	(0.0)	n/a
Loss before income taxes	(4.9)	(1.7)	(3.2)	n/a
Income tax recovery	1.1	0.0	1.1	n/a
Net loss	\$ (3.8)	\$ (1.7)	\$ (2.1)	n/a
Adjusted EBITDA ²	\$ (1.2)	\$ 3.1	\$ (4.3)	n/a
Adjusted ROA ²	\$ (3.6)	\$ (1.0)	\$ (2.6)	n/a
Loss per share:				
Basic	\$ (0.08)	\$ (0.04)	\$ (0.04)	(100.0%)
Diluted	(0.08)	(0.04)	(0.04)	(100.0%)

¹ Includes \$0.6 million of restructuring costs for the first quarter of 2023.

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

Net Sales

Net sales for the first quarter of 2024 increased by \$11.1 million, or 7.2%, to \$165.0 million. The increase was primarily due to the growth in comparable sales mainly driven from increased in-store traffic and improved sales dollars per unit. Comparable sales¹, which include e-commerce net sales, increased 6.4% during the first quarter of 2024. E-commerce net sales in relation to the Company's total net sales decreased due to a larger increase in both store traffic and store net sales.

The breakdown of net sales was as follows:

	First Quarter of 2024		First Quarter of 2023		\$ Change	% Change
Retail stores	\$ 120.9	73.3%	\$ 109.5	71.1%	\$ 11.4	10.4%
E-commerce	44.1	26.7%	44.4	28.9%	(0.3)	(0.7)%
Net sales	\$ 165.0	100.0%	\$ 153.9	100.0%	\$ 11.1	7.2%

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

Gross Profit

Gross profit for the first quarter of 2024 increased \$4.1 million to \$88.1 million as compared with \$84.0 million for the first quarter of 2023. Gross profit as a percentage of net sales for the first quarter of 2024 decreased to 53.4% from 54.6% for the first quarter of 2023. The increase in gross profit is primarily attributable to the increase in net sales during the first quarter of 2024. The decrease in gross profit as a percentage of net sales is primarily attributable to higher promotional activity combined with an unfavorable foreign exchange impact on U.S. dollar denominated purchases included in cost of goods sold, partially offset by lower supply chain costs as global shipping industry disruptions were prevalent in the first quarter of 2023.

Selling, Distribution and Administrative Expenses

Total selling, distribution and administrative expenses of \$91.7 million for the first quarter of 2024 increased by \$7.3 million or 8.6%, as compared to the first quarter of 2023, primarily attributable to the following:

- increased store operating costs due primarily to higher store personnel costs to support the increase in sales;
 - previous preferential rent arrangements were renewed at closer to market lease rates. The Company continues to benefit from excellent relationships with its landlords;
 - a \$1.2 million decrease in total combined financial support from Federal subsidy programs that ended in the first quarter of 2023;
 - higher head office and distribution centre personnel costs due to wage increases and to support growth areas of the business;
- partially offset by,
- restructuring related costs of \$0.6 million incurred during the first quarter of 2023;
 - a \$1.5 million decrease in depreciation, amortization and net impairment losses due primarily to the Company's controlled spending in property and equipment and intangible assets.

Net Finance Costs

Net finance costs were \$1.3. million for the first quarter of 2024 and for the first quarter of 2023. Included in net finance costs for the first quarter of 2024 was a \$1.0 million loss on foreign currency translation differences from the wind-up of a foreign operation and higher interest expense related to lease liabilities as compared to the first quarter of 2023, fully offset by higher interest income earned on funds held with a Canadian bank, no interest incurred on the revolving credit facility, and a higher foreign exchange gain on U.S. denominated net monetary assets in the first quarter of 2024.

Income Taxes

The income tax recovery of \$1.1 million for the first quarter of 2024 was negatively impacted by a non-deductible foreign currency translation loss reclassified to net earnings due to the wind-up of a foreign operation of \$1.0 million.

There was no income tax recovery in the first quarter of 2023 primarily as a result of the uncertainties related to the Company's ability to generate future profitable operations. As at April 30, 2022, management's assessment, was that it was not probable that future taxable profits would be available. Consequently, as at April 30, 2022, the Company did not recognize deferred tax assets on all temporary differences and operating losses carried forward relating to its Canadian based operations.

Net Loss

Net loss for the first quarter of 2024 was \$3.8 million (\$0.08 basic and diluted loss per share) as compared with a net loss of \$1.7 million (\$0.04 basic and diluted loss per share) for the first quarter of 2023. The increase in net loss of \$2.1 million is primarily attributable the increase in overall operating costs, partially offset by an increase in gross profits and an increase in the income tax recovery, as noted above.

Adjusted EBITDA

Adjusted EBITDA for the first quarter of 2024 was \$(1.2) million as compared to \$3.1 million for the first quarter of 2023. The decrease of \$4.3 million is primarily attributable to an increase in operating costs, partially offset by the increase in gross profits, as noted above.

Adjusted ROA

Adjusted ROA for the first quarter of 2024 was \$(3.6) million as compared with \$(1.0) million for the first quarter of 2023. The decrease of \$2.6 million is primarily attributable to an increase in operating costs, partially offset by the increase in gross profit, 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 “2024” are to the Company’s fiscal year ending February 3, 2024, “2023” are to the Company’s fiscal year ended January 28, 2023 and “2022” are to the Company’s fiscal year ended January 29, 2022.

	First Quarter		Fourth Quarter		Third Quarter		Second Quarter	
	2024	2023	2023	2022	2023	2022	2023	2022
Sales	\$ 165.0	\$ 153.9	\$ 211.9	\$ 190.2	\$ 205.6	\$ 178.2	\$ 229.2	\$ 172.3
Net (loss) earnings from continuing operations ⁵	(3.8)	(1.7)	27.5	97.2	14.6	22.0	37.3	23.9
Earnings from discontinued operations, net of tax ⁵	-	-	-	-	-	4.8	-	10.2
Net (loss) earnings	(3.8)	(1.7) ¹	27.5 ²	97.2 ²	14.6 ³	26.8 ³	37.3 ⁴	34.1 ⁴
(Loss) earnings per share								
Basic	\$ (0.08)	\$ (0.04) ¹	\$ 0.56 ²	\$ 1.99 ²	\$ 0.30 ³	\$ 0.55 ³	\$ 0.76 ⁴	\$ 0.70 ⁴
Diluted	(0.08)	(0.04) ¹	0.56 ²	1.99 ²	0.30 ³	0.55 ³	0.76 ⁴	0.70 ⁴
(Loss) earnings per share, continuing operations ⁵ :								
Basic	\$ (0.08)	\$ (0.04)	\$ 0.56	\$ 1.99	\$ 0.30	\$ 0.45	\$ 0.76	\$ 0.49
Diluted	(0.08)	(0.04)	0.56	1.99	0.30	0.45	0.76	0.49

¹ During the first quarter of 2023, net loss includes restructuring costs of \$0.6 million, partially offset by the impact of Federal subsidies totalling \$1.2 million.

² During the fourth quarter of 2023, net earnings include \$1.9 million of restructuring costs recovery. During the fourth quarter of 2022, net earnings include the impact of Federal subsidies totalling \$4.7 million, gain on settlement of liabilities subject to compromise of \$88.6 million, partially offset by restructuring costs of \$0.5 million.

³ During the third quarter of 2023, net earnings include restructuring costs of \$0.1 million. During the third quarter of 2022, net earnings include the impact of Federal subsidies totalling \$1.6 million and a restructuring costs recovery of \$0.3 million.

⁴ During the second quarter of 2023, net earnings include restructuring costs recovery of \$0.2 million. During the second quarter of 2022, net earnings include the impact of Federal subsidies totalling \$6.2 million and a restructuring costs recovery of \$16.1 million.

⁵ During fiscal 2021, the Company closed the Thyme Maternity and Addition Elle banners 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 2021. Discontinued operations were 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).

BALANCE SHEET

Selected line items from the Company's balance sheets as at April 29, 2023 and January 28, 2023 are presented below:

	April 29, 2023	January 28, 2023	\$ Change	% Change
Cash	\$ 69.4	\$ 103.0	\$ (33.6)	(32.6)%
Trade and other receivables	3.9	3.2	0.7	21.9%
Inventories	139.1	142.3	(3.2)	(2.2)%
Prepaid expenses and other assets	18.6	14.5	4.1	28.3%
Property and equipment & intangible assets	65.7	66.5	(0.8)	(1.2)%
Right-of-use assets	88.4	79.9	8.5	10.6%
Pension asset	1.3	-	1.3	n/a%
Deferred income taxes	33.1	32.3	0.8	2.5%
Trade and other payables	53.7	81.1	(27.4)	(33.8)%
Deferred revenue	12.2	14.1	(1.9)	(13.5)%
Income taxes payable	0.5	1.0	(0.5)	(50.0)%
Lease liabilities (current and non-current)	96.5	87.5	9.0	10.3%

Changes at April 29, 2023 as compared to January 28, 2023 were primarily due to the following:

- cash decreased \$33.6 million primarily due to the payment of fiscal 2023 performance incentive plan awards, the timing of payments related to trade and non-trade payables, less cash generated from operations, and the investments made in property and equipment in the first quarter of 2024;
- trade and other receivables increased primarily due to higher credit card receivables as at April 29, 2023 as compared to as at January 28, 2023;
- inventories decreased by \$3.2 million due to reduced advanced merchandise deliveries as supply chain conditions improved;
- the increase of \$4.1 million in prepaid expenses and other assets is primarily due to the timing of payments related to in-cloud hosting service contracts;
- property and equipment & intangible assets decreased by \$0.8 million. During the first quarter of 2024, \$3.5 million was invested primarily on new stores, store renovations and head office hardware and software investments. Depreciation and amortization of \$3.3 million and a net impairment of \$0.3 million on property and equipment and intangible assets were recognized in the first quarter of 2024 (\$3.9 million of depreciation and amortization and a net impairment of \$1.2 million on property and equipment and intangible assets were recognized in the first quarter of 2023);
- 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 a net \$8.5 million primarily due to leases signed during the first quarter of 2024. Depreciation and amortization of \$7.8 million was recognized in the first quarter of 2024 (\$5.8 million in the first quarter of 2023). No impairment charges were recognized in the first quarter of 2024 and 2023;
- pension asset increased by \$1.3 million due to an actuarial gain recognized in other comprehensive income in the first quarter of 2024. On May 19, 2023, the Company's Board of Directors has approved the dissolution of the defined benefit pension plan ("Plan"). The effective date of the windup for the Plan is June 30, 2024. See Notes 6 and 20 of the unaudited condensed consolidated interim financial statements for the first quarter of 2024;
- deferred tax assets arise primarily due to temporary differences and operating losses carried forward relating to the Canadian operations as a result of management's assessment that the Company has the ability to generate future profitable operations and that it is probable that future taxable profits will be available to utilize the tax benefits;

- trade and other payables decreased by \$27.4 million due to the timing of payments related to trade and non-trade payables and personnel-related liabilities (including performance incentive plan awards), partially offset by an increase in the refund liability related to sales returns associated with the increase in sales during the first quarter of 2024;
- deferred revenue decreased by \$1.3 million due to the timing of gift card redemptions. Deferred revenue consists of unredeemed gift cards, loyalty points and awards granted under customer loyalty programs;
- income taxes payable consists primarily of estimated net tax liabilities of a foreign subsidiary. The decrease of \$0.5 million in income taxes payable is due to payments made by a foreign subsidiary;
- lease liabilities represent the present value of the Company's obligations to make lease payments for its store and equipment leases. During the first quarter of 2024, lease liabilities increased by lease additions of \$16.4 million and interest expense of \$1.6 million, offset by payments of \$8.9 million and lease terminations of \$0.1 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 28, 2023 (which is available on the SEDAR website at www.sedar.com).

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

The Company primarily uses funds for working capital requirements and capital expenditures. As at April 29, 2023, the Company increased its working capital¹ position by \$42.9 million with current assets of \$233.7 million (April 30, 2022 – \$219.3 million; January 28, 2023 - \$265.9 million) and current liabilities of \$94.0 million (April 30, 2022 - \$122.5 million; January 28, 2023 - \$122.9 million) and no long-term debt (other than lease liabilities). As at April 29, 2023, included in the Company's current assets is cash of \$69.4 million (April 30, 2022 - \$40.2 million; January 28, 2023 - \$103.0 million). Cash is held in interest bearing accounts mainly with a major Canadian financial institution.

The Company has a senior secured asset-based revolving credit facility with a Canadian financial institution of up to \$115.0 million (or its U.S. dollar equivalent), which matures on January 12, 2025. If and when necessary, this committed facility is used to finance the ongoing operations of the Company. No amount was drawn under the secured asset-based credit facility as at April 29, 2023 (April 30, 2022 – \$34.4 million; January 28, 2023 - nil).

In the first quarter of 2024, the Company invested \$3.5 million in capital expenditures. The Company expects to invest approximately \$20.0 million in capital expenditures in fiscal 2024. The Company's capital allocation strategy focuses on three main investment areas:

1. Investment in store renovations to ensure the existing fleet of stores remains current and relevant and in new stores as suitable locations are identified;
2. Technology, continuing to upgrade systems including migrating legacy systems to cloud service providers and omnichannel network, including in-store and ecommerce digital capabilities;
3. Distribution improvements, including optimizing and further automating distribution capabilities and upgrading existing distribution.

¹ This is a Non-GAAP Financial Measure. See section entitled "Non-GAAP Financial Measures & Supplementary Financial Measures" for a reconciliation of this measure.

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 28, 2023.

OUTSTANDING SHARE DATA

At June 14, 2023, 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 June 14, 2023, the Company has a total of 2,597,000 share options outstanding at an average exercise price of \$2.63. 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. In early fiscal 2021, the Company had temporarily paused its hedging program. As at April 29, 2023, the Company's hedging program remained temporarily paused and there were no foreign exchange contracts outstanding.

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 28, 2023.

FINANCIAL INSTRUMENTS

The Company uses its cash resources and its credit facilities 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 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 28, 2023 (which is available on the SEDAR website at www.sedar.com).

ADOPTION OF NEW ACCOUNTING POLICIES

The new accounting policies set out below have been adopted in the unaudited condensed consolidated interim financial statements as at and for the first quarter of 2024:

- Disclosure Initiative – Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

Further information on these new accounting policies can be found in Note 3 of the unaudited condensed consolidated interim financial statements for the first quarter of 2024.