ARITZIA

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
First Quarter of Fiscal 2021

For the 13-week periods ended
May 31, 2020 and June 2, 2019

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at May 31, 2020 and March 1, 2020

(Unaudited, in thousands of Canadian dollars)

	Note	May 31, 2020	March 1, 2020
Assets			
Current assets			
Cash and cash equivalents		$ 224,313	$ 117,750
Accounts receivable		6,159	6,555
Income taxes recoverable	16	4,188	2,157
Inventory	5	114,620	94,034
Prepaid expenses and other current assets	1	29,838	10,880
Total current assets		379,118	231,376
Property and equipment	1,6	187,232	184,637
Intangible assets	1,6	63,451	63,867
Goodwill	1	151,682	151,682
Right-of-use assets	1,2,7	384,678	380,360
Other assets		4,248	4,315
Deferred tax assets		19,990	20,478
Total assets		$ 1,190,399	$ 1,036,715
Liabilities			
Current liabilities			
Bank indebtedness	10	$ 100,000	$ -
Accounts payable and accrued liabilities	8	116,906	57,715
Income taxes payable		2,865	3,198
Current portion of lease liabilities	2,7	84,607	63,440
Deferred revenue		34,779	29,490
Total current liabilities		339,157	153,843
Lease liabilities	7	451,763	447,087
Other non-current liabilities	9	9,268	9,451
Deferred tax liabilities		9,686	19,529
Long-term debt	10	74,768	74,740
Total liabilities		884,642	704,650
Shareholders' equity			
Share capital	12	219,441	219,050
Contributed surplus		58,022	57,221
Retained earnings		29,519	56,476
Accumulated other comprehensive loss		(1,225)	(682)
Total shareholders' equity		305,757	332,065
Total liabilities and shareholders' equity		$ 1,190,399	$ 1,036,715

Commitments and contingencies (note 18)

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Operations

For the 13-week periods ended May 31, 2020 and June 2, 2019

(Unaudited, in thousands of Canadian dollars, except number of shares and per share amounts)

	Note	May 31, 2021	June 2, 2019
Net revenue	17	$ 111,389	$ 196,699
Cost of goods sold	1,15	98,328	111,138
Gross profit		13,061	85,561
Operating expenses			
Selling, general and administrative	1	43,511	54,429
Stock-based compensation expense	13,15	979	2,374
(Loss) income from operations		(31,429)	28,758
Finance expense	7,15	7,390	7,227
Other income	15	(1,218)	(1,279)
(Loss) income before income taxes		(37,601)	22,810
Income tax (recovery) expense	16	(11,130)	6,654
Net (loss) income		$ (26,471)	$ 16,156
Net (loss) income per share			
Basic	14	$ (0.24)	$ 0.15
Diluted	14	(0.24)	0.14
Weighted average number of shares outstanding (thousands)			
Basic	14	109,353	107,990
Diluted	14	109,353	111,851

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Comprehensive (Loss) Income

For the 13-week periods ended May 31, 2020 and June 2, 2019

(Unaudited, in thousands of Canadian dollars)

	May 31, 2020	June 2, 2019
Net (loss) income	$ (26,471)	$ 16,156
Other comprehensive loss		
Items that are or may be reclassified subsequently to net (loss) income:		
Foreign currency translation adjustment	(543)	(603)
Comprehensive (loss) income	$ (27,014)	$ 15,553

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

Aritzia Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the 13-week periods ended May 31, 2020 and June 2, 2019

(Unaudited, in thousands of Canadian dollars, except number of shares)

	Multiple voting shares		Subordinate voting shares					
	Shares	Amounts	Shares	Amounts	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive loss	Total shareholders' equity
Balance, March 3, 2019	44,531,768	$ 32,191	69,409,683	$ 167,326	$ 65,806	$ 109,339	$ (353)	$ 374,309
Adjustment on adoption of IFRS 16, Leases	-	-	-	-	-	(42,402)	-	(42,402)
Balance, March 4, 2019	44,531,768	$ 32,191	69,409,683	$ 167,326	$ 65,806	$ 66,937	$ (353)	$ 331,907
Net Income	-	-	-	-	-	16,156	-	16,156
Options exercised (note 13)	-	-	200,704	2,292	(1,438)	-	-	854
Stock-based compensation expense on equity-settled plans (note 13)	-	-	-	-	2,201	-	-	2,201
Share exchange at Secondary Offering (note 12)	(14,996,824)	(10,841)	14,996,824	10,841	-	-	-	-
Shares repurchased for cancellation (note 1)	(4,997,595)	(3,613)	(1,336,058)	(2,821)	-	(100,605)	-	(107,039)
Foreign currency translation adjustment	-	-	-	-	-	-	(603)	(603)
Balance, June 2, 2019	24,537,349	$ 17,737	83,271,153	$ 177,638	$ 66,569	$ (17,512)	$ (956)	$ 243,476
Balance, March 1, 2020	24,537,349	$ 17,737	84,811,212	$ 201,313	$ 57,221	$ 56,476	$ (682)	$ 332,065
Net loss	-	-		-	-	(26,471)	-	(26,471)
Options exercised (note 13)	-	-	38,014	483	(312)	-	-	171
Stock-based compensation expense on equity-settled plans (note 13)	-	-	-	-	1,113	-	-	1,113
Shares repurchased for cancellation (note 12)	-	-	(38,664)	(92)	-	(486)	-	(578)
Foreign currency translation adjustment	-	-	-	-	-	-	(543)	(543)
Balance, May 31, 2020	24,537,349	$ 17,737	84,810,562	$ 201,704	$ 58,022	$ 29,519	$ (1,225)	$ 305,757

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

Aritzia Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the 13-week periods ended May 31, 2020 and June 2, 2019

(Unaudited, in thousands of Canadian dollars)

	Note	May 31, 2020	June 2, 2019
Operating activities			
Net (loss) income for the period		$ (26,471)	$ 16,156
Adjustments for:			
Depreciation and amortization		25,813	23,198
Finance expense		7,390	7,227
Stock-based compensation expense	13,15	979	2,374
Amortization of deferred rent and deferred lease inducements		(264)	(120)
Unrealized loss on equity derivative contracts		796	-
Income tax (recovery) expense	16	(11,130)	6,654
Proceeds from lease incentives		1,735	1,265
Cash generated before non-cash working capital balances and interest and income taxes		(1,152)	56,754
Net change in non-cash working capital balances	20	28,177	1,859
Cash generated before interest and income taxes		27,025	58,613
Interest paid		(1,295)	(1,218)
Interest paid on lease liabilities	7	(1,751)	(5,976)
Income taxes paid		-	(10,740)
Net cash generated from operating activities		23,979	40,679
Financing activities			
Proceeds from revolving credit facility	10	100,000	25,000
Repayment of principal on lease liabilities	7	(3,339)	(14,814)
Proceeds from options exercised	13	171	854
Shares repurchased for cancellation	1,12	(523)	(107,039)
Net cash generated from (used in) financing activities		96,309	(95,999)
Investing activities			
Purchase of property and equipment	6	(13,338)	(9,770)
Purchase of intangible assets	6	(542)	(396)
Net cash used in investing activities		(13,880)	(10,166)
Effect of exchange rate changes on cash and cash equivalents		155	346
Increase (decrease) in cash and cash equivalents		106,563	(65,140)
Cash and cash equivalents - Beginning of period		117,750	100,897
Cash and cash equivalents - End of period		$ 224,313	$ 35,757

Supplemental cash flow information (note 20)

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

1 Nature of operations and basis of presentation

Nature of operations

Aritzia Inc. and its subsidiaries (collectively referred to as the "Company") are an innovative design house and fashion boutique. The Company conceives, creates, develops and retails fashion brands. Each of the Company's exclusive brands has its own vision and distinct aesthetic point of view. As at May 31, 2020, the Company had 97 retail boutiques (June 2, 2019 – 92 retail boutiques).

Aritzia Inc. is a corporation governed by the Business Corporations Act (British Columbia). The address of its registered office is 666 Burrard Street, Suite 1700, Vancouver, B.C., Canada, V6C 2X8.

On March 8, 2019, the Company completed a secondary offering (the "March 2019 Secondary Offering") on a bought deal basis of its subordinate voting shares through a secondary sale of shares by certain shareholders. The March 2019 Secondary Offering of 19,505,000 subordinate voting shares raised gross proceeds of $329.6 million for the selling shareholders, at a price of $16.90 per subordinate voting share (the "March 2019 Offering Price"). The Company did not receive any proceeds from the March 2019 Secondary Offering. Underwriting fees were paid by the selling shareholders.

Concurrent with the completion of the March 2019 Secondary Offering, on March 8, 2019, the Company also completed its repurchase of 6,333,653 subordinate voting shares and multiple voting shares (the "Shares") for cancellation from certain shareholders, including an investment vehicle (the "Berkshire Shareholder") managed by Berkshire Partners LLC ("Berkshire") (the "Share Repurchase"). The purchase price per Share paid by the Company under the Share Repurchase was the same as the March 2019 Offering Price and resulted in an aggregate purchase price of $107.0 million paid to the selling shareholders. Total expenses related to the March 2019 Secondary Offering and Share Repurchase of $2.5 million were paid by the Company and were reimbursed by the selling shareholders participating in the Share Repurchase, including the Berkshire Shareholder.

Upon completion of the March 2019 Secondary Offering and Share Repurchase on March 8, 2019, the Berkshire Shareholder has no remaining equity interest in the Company.

The Company's subordinate voting shares are listed on the Toronto Stock Exchange under the stock symbol "ATZ".

Basis of presentation

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

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended March 1, 2020 (“Fiscal 2020”). These unaudited condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

Seasonality of operations

The Company’s business is affected by the pattern of seasonality common to most retail apparel businesses. Historically, the Company has recognized a significant portion of its operating profit in the third and fourth quarters of each fiscal year as a result of increased net revenue during the back-to-school and holiday seasons

These interim financial statements were authorized for issue on July 9, 2020 by the Company’s Board of Directors.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of the COVID-19 coronavirus a worldwide pandemic, which continues to spread globally. On March 16, in line with recommendations by public health officials and guidance from local government authorities, the Company temporarily closed all of its retail boutiques in Canada and the United States. The Company’s distribution centers remained opened under stringent health and safety protocols. On May 7, 2020, the Company began a phased reopening of its retail boutiques. As part of the reopening plan, the Company has implemented extensive health and safety measures designed to protect is people and clients. As of May 31, 2020, 30 boutiques have been reopened. Subsequent to May 31, 2020, 89 boutiques have reopened.

Net revenue is reported net of an estimated allowance for returns. As a result of its boutique closures, the Company temporarily extended its return policies for purchases made online and in-boutiques. At May 31, 2020, the Company recorded a sales return allowance of $11.9 million to reflect the extended policy.

In response to the negative economic impact of COVID-19, various government programs have been announced to provide financial relief to affected businesses. The Company determined that it qualified for the Canada Emergency Wage Subsidy ("CEWS") program under the COVID-19 Economic Response Plan in Canada and for the Employee Retention Credit under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) in the United States. During the 13-week period ended May 31, 2020, the Company recognized payroll subsidies of $16.4 million under the above mentioned programs. The subsidies were recorded in prepaid expenses and other current assets in the consolidated statements of financial position and as a reduction in the associated eligible salaries and wage costs which the Company incurred, recognized in cost of goods sold and selling, general and administrative expenses in the consolidated statements of operations.

In May 2020, the IASB issued guidance in relation to accounting for lease concessions resulting from COVID-19. The Company has elected to apply the issued guidance for the annual period ending February 28, 2021 (note 3). No significant rent concessions have yet been confirmed and the Company is actively negotiating with its landlords.

Inventory is carried at the lower of cost and net realizable value. The Company periodically reviews its inventories and makes provisions as necessary to appropriately value obsolete or damaged goods. As a result

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

of this analysis, as at May 31, 2020, the Company did not recognize any additional inventory provisions due to COVID-19.

The CARES Act in the United States further allows the immediate expensing of qualified leasehold improvement property purchased after December 31, 2017 and the carry back of net operating losses to prior years. These two measures resulted in the Company recognizing an income taxes receivable of $5.3 million, to be applied to income taxes payable in future periods, and a decrease to total income tax expense of $1.4 million in in the 13-week period ended May 31, 2020.

The Company also qualified for and has deferred certain corporate income tax, duty and sales tax payments. As at May 31, 2020, the Company has deferred $14.0 million relating to tax and duty payments that would have otherwise been paid during the first fiscal quarter of 2021 to subsequent quarters of fiscal 2021.

The temporary boutique closures as a result of COVID-19 and the associated reduction in revenue during the 13-week period ended May 31, 2020 are considered to be an indicator of impairment. The Company performed a recoverability assessment for its property and equipment, definite life intangible assets and right-of-use assets and determined that that there was no impairment.

The Company also performed an impairment test over goodwill and indefinite life intangible assets as at May 31, 2020 and determined that there was no impairment.

The Company's operations were significantly impacted by the COVID-19 pandemic during the first quarter of fiscal 2021. The extent of the impact of COVID-19 on future periods and for the annual period ending February 28, 2021 will depend on future developments, including the duration or resurgence of the pandemic, which are uncertain and cannot be predicted. Further or prolonged closures of the Company's boutiques could result in the reassessment of impairment of property and equipment, definite and indefinite life intangible assets, right-of-use assets and goodwill, and a provision to the net realizable value of the Company's inventories.

2 Summary of significant accounting policies

These interim financial statements have been prepared using the accounting policies as outlined in note 3 of the Fiscal 2020 audited consolidated financial statements, with the exception of the accounting standards adopted in the year ending February 28, 2021 ("Fiscal 2021"). Changes to significant accounting policies are described below.

3 Significant new accounting standards

Standards recently adopted

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

In May 2020, IASB published COVID-19-Related Rent Concessions, which amends IFRS 16, Leases, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. The amendment becomes effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The Company adopted the amendment effective for the annual period ending February 28, 2021 and has elected to apply the provided practical

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

expedient. The Company will account for any change in lease payments resulting from a COVID-19-related rent concession the same way it would account for the change if the change were not a lease modification.

Standards issued but not yet adopted

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

In January 2020, IASB issued Classification of Liabilities as Current or Non-Current, which amends IAS 1 – Presentation of Financial Statements. The narrow scope amendments affect only the presentation of liabilities in the statement of financial position and not the amount or timing of its recognition. It clarifies that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period and specifies that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability. It also introduces a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The Company is assessing the potential impact of these amendments.

4 Critical accounting estimates and judgments

The preparation of unaudited condensed interim consolidated financial statements in accordance with IFRS requires management to make judgments, estimates (including about the future effects of the COVID-19 pandemic) and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are continuously evaluated and are based on management's best judgments and experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgments made by management in applying the Company's accounting policies and key sources of estimation of uncertainty were the same as those applied in note 4 of the Fiscal 2020 audited consolidated financial statements.

5 Inventory

	May 31, 2020	March 1, 2020
Finished goods	$ 93,317	$ 84,601
Finished goods in transit	21,303	9,433
	$ 114,620	$ 94,034

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

The Company records a reserve to value inventory to its estimated net realizable value. This resulted in an expense in cost of goods sold of $0.7 million for the 13-week period ended May 31, 2020 (June 2, 2019 - $0.4 million). No inventory write-downs recorded in previous periods were reversed.

All of the Company's inventory is pledged as security for the Credit Facilities (note 10).

6 Property and equipment and intangible assets

During the 13-week period ended May 31, 2020, the Company had property and equipment additions of $9.0 million, the majority of which were related to leasehold improvements made to its retail boutiques, the purchase of furniture and equipment for such boutiques and leasehold improvements made to its support office (June 2, 2019 - $7.5 million). During the same period, the Company also had intangible asset additions of $0.3 million (June 2, 2019 - $0.4 million), the majority of which were related to internally developed computer software.

7 Leases

The following table reconciles the change in right-of-use assets for the 13-week period ended May 31, 2020:

		Right-of-use assets
Cost		
Balance, March 1, 2020	$	439,870
Additions, net of lease incentives received		15,134
Modifications		(280)
Foreign exchange		6,700
Balance, May 31, 2020	$	461,424
Accumulated depreciation		
Balance, March 1, 2020	$	59,510
Depreciation		16,448
Foreign exchange		788
Balance, May 31, 2020	$	76,746
Net carrying value		
Balance, March 1, 2020	$	380,360
Balance, May 31, 2020	$	384,678

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

The following table reconciles the change in lease liabilities for the 13-week period ended May 31, 2020:

		Lease liabilities
Balance, March 1, 2020	$	510,527
Additions		17,020
Accretion of lease liabilities (note 15)		6,161
Repayment of interest and principal on lease liabilities		(5,090)
Modifications		(342)
Foreign exchange		8,094
Balance, May 31, 2020	$	536,370

8 Accounts payable and accrued liabilities

		May 31, 2020		**March 1, 2020**
Trade accounts payable	$	72,122	$	36,084
Other non-trade payables		22,134		6,856
Employee benefits payable		22,650		14,775
	$	116,906	$	57,715

9 Other non-current liabilities

		May 31, 2020		**March 1, 2020**
Deferred lease inducements	$	5,968	$	6,029
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 13)		2,927		3,061
Asset retirement obligations		373		361
	$	9,268	$	9,451

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

10 Bank indebtedness and long-term debt

The Company has a term loan and revolving credit facility (collectively the "Credit Facilities") with its syndicate of lenders.

a) Long-term debt

		May 31, 2020		March 1, 2020
Term loan	$	75,000	$	75,000
Less: Deferred financing fees		(232)		(260)
Long-term debt	$	74,768	$	74,740

The term loan matures on May 22, 2022 and has no scheduled principal payments prior to maturity. Interest is paid on a monthly basis. Under the Credit Facilities, the Company has the option to borrow using Banker's Acceptance borrowings ("BA"), LIBO rate borrowings ("LIBO"), or Canadian prime rate borrowings ("Prime") plus a marginal interest rate between 0.50% and 2.50% (March 1, 2020 – 0.50% and 2.50%).

The term loan requires mandatory loan prepayments by the Company of principal and interest if certain events occur. As at May 31, 2020 and March 1, 2020, the Company was not required to make a mandatory loan prepayment.

b) Bank indebtedness

The Company has a revolving credit facility of $100.0 million (March 1, 2020 - $100.0 million). The revolving credit facility bears interest at BA, LIBO or Prime plus a marginal rate between 0.50% and 2.50% (March 1, 2020 – 0.50% and 2.50%). Up to $10.0 million of the facility can be drawn upon by way of a swingline loan.

As at May 31, 2020, $100.0 million was drawn from the revolving credit facility.

The Company also has letters of credit facilities of $75.0 million, secured *pari passu* with the Credit Facilities. The interest rate for the letters of credit is between 1.00% and 2.50%. The amount available under these facilities is reduced to $36.1 million (March 1, 2020 - $46.5 million) by certain open letters of credit (note 17(b)).

The Credit Facilities are collateralized by a first priority lien on all property, plant and equipment, leased real property interests and inventory. In addition, the Company is to maintain certain financial covenants. As at May 31, 2020 and March 1, 2020, the Company was in compliance with all financial covenants.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

11 Derivative financial instruments

The Company has equity derivative contracts to hedge the share price exposure on its cash-settled DSUs and RSUs. These contracts are not designated as hedging instruments for accounting purposes. During the 13-week period ended May 31, 2020, the Company recorded an unrealized loss of $0.8 million (June 2, 2019 – not applicable) for the change in fair value for these contracts in the consolidated statements of operations in other income. As at May 31, 2020, the equity derivative contracts had a negative fair value of $0.1 million (June 2, 2019 – not applicable).

12 Share capital

On March 5, 2019, in connection with the March 2019 Secondary Offering and Share Repurchase, certain selling shareholders exchanged 14,996,824 of their multiple voting shares for subordinate voting shares (note 1).

On July 11, 2019, the Company announced the commencement of a normal course issuer bid (the “NCIB”) to repurchase and cancel up to 3,624,915 of its subordinate voting shares, representing approximately 5% of the public float, over the 12-month period commencing July 16, 2019 and ending July 15, 2020. All repurchases are made through the facilities of the Toronto Stock Exchange and are done at market prices. The amounts paid above the average book value of the subordinate voting shares are charged to retained earnings

On August 30, 2019, the Company entered into an automated share purchase plan (the “ASPP”) with a designated broker for the purpose of permitting the Company to purchase its subordinate voting shares under the NCIB during self-imposed blackout periods. The volume of purchases is determined by the broker in its sole discretion based on purchase price and maximum volume parameters established by the Company under the ASPP. All purchases made under the ASPP will be included in computing the number of subordinate voting shares purchased under the NCIB. The Company records a liability for purchases that are estimated to occur during blackout periods based on the parameters of the NCIB and ASPP.

During the 13-week period ended May 31, 2020, the Company repurchased 38,664 subordinate voting shares for cancellation at an average price of $13.51 per subordinate voting share, for total cash consideration of $0.5 million, under the terms of the ASPP.

On March 17, 2020, the Company amended the ASPP under the NCIB such that the then authorized trading window ended March 17, 2020. On May 28, 2020, the Company further amended its ASPP such that no additional trading windows will be authorized, which effectively terminated any further purchases under the ASPP.

As at May 31, 2020, there were 24,537,349 multiple voting shares and 84,810,562 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at May 31, 2020. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

13 Stock options

The Company has granted stock options under the Legacy Plan and the Option Plan.

Legacy Plan

Following completion of the IPO, no additional options will be granted under the Legacy Plan.

Transactions for stock options granted under the Legacy Plan for the periods ended on the dates indicated below were as follows:

	For the 13-week periods ended			
	May 31, 2020		June 2, 2019	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	3,624,983	$ 4.85	5,081,717	$ 4.64
Exercised	(38,014)	4.52	(179,222)	2.95
Forfeited	-		-	-
Outstanding, at end of period	3,586,969	$ 4.86	4,902,495	$ 4.70

Stock-based compensation expense in relation to the options under the Legacy Plan for the 13-week period ended May 31, 2020 was $0.2 million (June 2, 2019 – $0.6 million).

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

Option Plan

Transactions for stock options granted under the Option Plan for the periods ended on the dates indicated below were as follows:

	For the 13-week periods ended			
	May 31, 2020		June 2, 2019	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of period	4,158,524	$ 15.22	4,767,727	$ 14.81
Granted	-	-	88,824	18.17
Exercised	-	-	(21,482)	15.13
Forfeited	(92,555)	14.40	(64,180)	14.93
Outstanding, at end of period	4,065,969	$ 15.24	4,770,889	$ 14.87

Stock-based compensation expense in relation to the options under the Option Plan for the 13-week period ended May 31, 2020 was $0.9 million (June 2, 2019 – $1.6 million).

Director Deferred Share Unit (“DSU”) Program

Each eligible director receives a portion of his or her annual director retainer in DSUs. DSUs vest when granted, but are not redeemable for cash settlement until the eligible director ceases to be a member of the Board. The Company is required to record a liability for the potential future settlement of the DSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the DSUs was $2.2 million at May 31, 2020 (June 2, 2019 – $1.1 million), with a recovery of ($0.2) million for the 13-week period ended May 31, 2020 (June 2, 2019 – $0.1 million), recorded as stock-based compensation expense.

Transactions for DSUs granted for the periods ended on the dates indicated below were as follows:

	May 31, 2020	June 2, 2019
	Number of DSUs	Number of DSUs
Outstanding, at beginning of period	108,959	65,191
Granted	13,224	10,140
Outstanding, at end of period	122,183	75,331

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

Restricted Share Unit ("RSU") Program

RSUs vest on the third anniversary of the award date and at that time, are redeemable for cash based on the market value of the Company's shares. The Company is required to record a liability for the potential future settlement of the RSUs at each reporting date by reference to the fair value of the liability. The fair value of the recorded liability in relation to the RSUs was $0.7 million as at May 31, 2020 (June 2, 2019 – $0.1 million), with an expense of $0.1 million for the 13-week period ended May 31, 2020 (June 2, 2019 – $0.1 million), recorded as stock-based compensation expense.

Transactions for RSUs granted for the periods ended on the dates indicated below were as follows:

	May 31, 2020	**June 2, 2019**
	Number of RSUs	**Number of RSUs**
Outstanding, at beginning of period	145,790	38,099
Granted	-	38,916
Forfeited	(2,842)	-
Outstanding, at end of period	142,948	77,015

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

14 Net (loss) income per share

a) Basic

Basic net (loss) income per share is calculated by dividing the (loss) income attributable to shareholders of the Company by the weighted average number of multiple voting shares and subordinate voting shares outstanding during the period. As all the classes of shares are subject to the same distribution rights, the Company performs the net (loss) income per share calculations as if all shares are a single class.

	13-week periods ended	
	May 31, 2020	**June 2, 2019**
Net (loss) income attributable to shareholders of the Company	$ (26,471)	$ 16,156
Weighted average number of shares outstanding during the period (thousands)	109,353	107,990
Basic net (loss) income per share	$ (0.24)	$ 0.15

b) Diluted

Net (loss) income per diluted share is calculated by dividing the (loss) income attributable to shareholders of the Company by the weighted average number of multiple voting shares and subordinate voting shares outstanding during the period adjusted for the effects of potentially dilutive stock options.

	13-week periods ended	
	May 31, 2020	**June 2, 2019**
Net (loss) income attributable to shareholders of the Company	$ (26,471)	$ 16,156
Weighted average number of shares for net (loss) income per diluted share (thousands)	109,353	111,851
Net (loss) income per diluted share	$ (0.24)	$ 0.14

For the 13-week period ended May 31, 2020, 7,652,938 stock options were not included in the calculation of diluted loss per share as they were anti-dilutive.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

15 Expenses by nature

	13-week periods ended	
	May 31, 2020	**June 2, 2019**
Cost of goods sold		
Inventory and product-related costs and occupancy costs (note 1)	$ 74,917	$ 89,969
Depreciation expense (note 7)	23,411	21,169
	$ 98,328	$ 111,138

	13-week periods ended	
	May 31, 2020	**June 2, 2019**
Personnel expenses		
Salaries, wages and employee benefits	$ 49,017	$ 45,573
Stock-based compensation expense	979	2,374
Government payroll subsidies (note 1)	(16,439)	-
	$ 33,557	$ 47,947

	13-week periods ended	
	May 31, 2020	**June 2, 2019**
Finance expense		
Interest expense on lease liabilities (note 7)	$ 6,161	$ 5,976
Interest expense and banking fees	1,176	1,198
Amortization of deferred financing fees	53	53
	$ 7,390	$ 7,227

	13-week periods ended	
	May 31, 2020	**June 2, 2019**
Other income		
Realized foreign exchange gain	$ (938)	$ (175)
Unrealized foreign exchange gain	(658)	(964)
Unrealized loss on equity derivative contracts	796	-
Interest and other income	(418)	(140)
	$ (1,218)	$ (1,279)

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

16 Income taxes

The income tax (recovery) expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full fiscal year. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods. The statutory income tax rate for the 13-week period ended May 31, 2020 is 26.7% (June 2, 2019 – 26.9%). The Company's effective income tax rate for the 13-week period ended May 31, 2020 is 29.6% (June 2, 2019 – 29.2%).

17 Segment information

The Company defines an operating segment on the same basis that it uses to evaluate performance internally and to allocate resources by the Chief Operating Decision Maker (the "CODM"). The Company has determined that the Chief Executive Officer is its CODM and there is one operating segment. Therefore, the Company reports as a single segment. This includes all sales channels accessed by the Company's clients, including sales through the Company's eCommerce website and sales at the Company's boutiques.

The following table summarizes net revenue by geographic location of the Company's clients:

	13-week periods ended	
	May 31, 2020	**June 2, 2019**
Canada	$ 73,972	$ 121,250
United States	37,417	75,449
	$ 111,389	$ 196,699

The Company's non-current, non-financial assets (property and equipment, intangible assets and goodwill, and right-of-use assets) are geographically located as follows:

	May 31, 2020	**March 1, 2020**
Canada	$ 488,306	$ 483,112
United States	298,737	297,434
	$ 787,043	$ 780,546

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

18 Commitments and contingencies

a) Product purchase obligations

At May 31, 2020, the Company had purchase obligations of $36.5 million (March 1, 2020 - $42.2 million), which represent commitments for fabric expected to be used during upcoming seasons, made in the normal course of business.

b) Letters of credit

At May 31, 2020, the Company had open letters of credit of $38.9 million (March 1, 2020 - $28.5 million).

19 Related party transactions

Upon completion of the March 2019 Secondary Offering and Share Repurchase, on March 8, 2019, the Berkshire Shareholder sold its entire investment in the Company. As a result, effective March 8, 2019, the Company is ultimately controlled by AHI Holdings Inc., an entity controlled by a director and officer of the Company.

The Company entered into the following transactions with related parties:

a) During the 13-week period ended May 31, 2020, the Company made payments of $0.6 million (June 2, 2019 - $1.0 million) for a lease of premises and management services and $nil (June 2, 2019 - $336) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. At May 31, 2020, $0.1 million was included in accounts payable and accrued liabilities (March 1, 2020 - $0.2 million).

b) Key management includes the Company's directors and executive team. Compensation awarded to key management includes:

	13-week periods ended	
	May 31, 2020	**June 2, 2019**
Salaries, directors' fees and short-term benefits	$ 1,096	$ 922
Stock-based compensation expense	89	596
	$ 1,185	$ 1,518

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

20 Supplemental cash flow information

	13-week periods ended	
	May 31, 2020	**June 2, 2019**
Net change in non-cash working capital balances		
Accounts receivable	$ 655	$ 2,927
Prepaid expenses and other current assets	(19,615)	(1,120)
Inventory	(20,007)	3,552
Other assets	77	(313)
Accounts payable and accrued liabilities	62,166	(2,777)
Deferred revenue	4,901	(410)
	$ 28,177	$ 1,859
Supplemental cash flow information		
Accrued purchases of property and equipment	$ 2,100	$ 2,190
Accrued purchases of intangible assets	84	10

21 Financial risk management

The Company is exposed to a variety of financial risks in the normal course of operations including currency, interest rate, credit and liquidity risk, as summarized below. The Company's overall risk management program and business practices seek to minimize any potential adverse effects on the Company's consolidated financial performance.

a) Market risk

Currency risk

The Company is exposed to foreign exchange risk on foreign currency denominated transactions, monetary assets and liabilities denominated in a foreign currency, and net investments in foreign operations. The Company sources the majority of its raw materials and merchandise from various suppliers in Asia and Europe with the vast majority of purchases denominated in U.S. dollars. In addition, the Company operates boutiques in the U.S. The Company's foreign exchange risk is primarily with respect to the U.S. dollar and the Company has limited exposure to other currencies. Foreign currency forward contracts are used, from time to time, to mitigate risks associated with forecasted U.S. dollar merchandise purchases sold in Canada.

As at May 31, 2020, a $0.01 variation in the Canadian dollar against the U.S. dollar on net monetary accounts in U.S. dollars would, with all other variables being constant, have an approximate favourable (or unfavourable) impact of $0.2 million on net (loss) income.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents and debt. Debt issued at variable rates exposes the Company to cash flow interest rate risk. Debt issued at fixed rates exposes the Company to fair value interest rate risk. During the 13-week period ended May 31, 2020, the Company had only variable interest rate debt. An increase (or decrease) in interest rate by 1% would result in an increase (or decrease) of $0.2 million in interest expense on the term loan.

Equity price risk

The Company is exposed to risk arising from the cash settlement of our deferred and restricted share units, as an appreciating subordinate voting share price increases the potential cash outflow. We record a liability for the potential future settlement of our deferred and restricted share units by reference to the fair value of the liability. We use equity derivative contracts to offset our cash flow variability of the expected payment associated with our deferred and restricted share units. We only enter into equity derivative contracts with major financial institutions. An increase (or decrease) in the Company's share price by $1.0 dollar would result in an increase (or decrease) of $0.2 million in the fair value of the liability.

b) Credit risk

Credit risk is the risk of an unexpected loss if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, accounts receivable, and derivative contracts used to hedge market risks. The Company offsets credit risks associated with cash and cash equivalents by depositing its cash and cash equivalents with major financial institutions that have been assigned high credit ratings by internationally recognized credit rating agencies. The Company is exposed to credit risk on accounts receivable from its landlords for tenant allowances. To reduce this risk, the Company enters into leases with landlords with established credit history and, for certain leases, the Company may offset rent payments until accounts receivable are fully satisfied. The Company only enters into derivative contracts with major financial institutions.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

c) Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company manages liquidity risk through various means, including monitoring actual and projected cash flows, taking into account the seasonality of its revenue, income and working capital needs. The Company's revolving credit facility is used to maintain liquidity. As at May 31, 2020, the Company had drawn down $100.0 million (March 1, 2020 - $nil) under its revolving credit facility, which is presented as bank indebtedness in current liabilities based on the Company's estimate of what it expects to settle in the next 12 months. As at May 31, 2020, the Company also had available credit of $75.0 million under trade finance agreements (March 1, 2020 – $75.0 million), of which $38.9 million of letters of credit were outstanding (March 1, 2020 – $28.5 million).

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at May 31, 2020:

	Within one year	After one but not more than 5 years	After 5 years	Total
Bank indebtedness	$ 100,000	$ -	$ -	$ 100,000
Accounts payable and accrued liabilities	116,906	-	-	116,906
Assumed interest on long-term debt [(1)]	1,536	1,507	-	3,043
Long-term debt	-	75,000	-	75,000
Total	$ 218,442	$ 76,507	$ -	$ 294,949

(1) Based on interest rates in effect as at May 31, 2020, and assuming no unscheduled principal payments are made prior to maturity.

22 Capital management

The Company's objectives when managing capital are to:

- ensure sufficient liquidity to enable the internal financing of capital projects thereby facilitating its growth;
- provide a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business; and
- maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations.

The Company defines capital as its Credit Facilities and shareholders' equity. The Company's primary uses of capital are to finance increases in non-cash working capital along with capital expenditures for new boutique additions, existing boutique expansion and renovation projects, and other infrastructure investments. The Company currently funds these requirements out of its internally generated cash flows and Credit Facilities.

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)

The Company is subject to financial covenants and collateral pursuant to the Credit Facilities presented in note 10.