ARITZIA

Aritzia Inc.

Condensed Interim Consolidated
Financial Statements
Second Quarter of Fiscal 2021

For the 13-week and 26-week periods ended
August 30, 2020 and September 1, 2019

Aritzia Inc.

Condensed Interim Consolidated Statements of Financial Position

As at August 30, 2020 and March 1, 2020

(Unaudited, in thousands of Canadian dollars)

	Note	August 30, 2020	March 1, 2020
Assets			
Current assets			
Cash and cash equivalents		$ 207,254	$ 117,750
Accounts receivable		3,832	6,555
Income taxes recoverable	16	7,953	2,157
Inventory	5	140,861	94,034
Prepaid expenses and other current assets	1	28,274	10,880
Total current assets		388,174	231,376
Property and equipment	1,6	187,395	184,637
Intangible assets	1,6	62,691	63,867
Goodwill	1	151,682	151,682
Right-of-use assets	1,2,7	396,135	380,360
Other assets		3,807	4,315
Deferred tax assets		18,568	20,478
Total assets		$ 1,208,452	$ 1,036,715
Liabilities			
Current liabilities			
Bank indebtedness	10	$ 100,000	$ -
Accounts payable and accrued liabilities	8	122,317	57,715
Income taxes payable		-	3,198
Current portion of lease liabilities	2,7	84,273	63,440
Deferred revenue		31,731	29,490
Total current liabilities		338,321	153,843
Lease liabilities	7	460,170	447,087
Other non-current liabilities	9	11,395	9,451
Deferred tax liabilities		16,147	19,529
Long-term debt	10	74,797	74,740
Total liabilities		900,830	704,650
Shareholders' equity			
Share capital	12	221,245	219,050
Contributed surplus		58,198	57,221
Retained earnings		28,645	56,476
Accumulated other comprehensive loss		(466)	(682)
Total shareholders' equity		307,622	332,065
Total liabilities and shareholders' equity		$ 1,208,452	$ 1,036,715

Commitments and contingencies (note 18)

Subsequent event (notes 10 and 22)

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 and 26-week periods ended August 30, 2020 and September 1, 2019

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

		13-week periods ended		26-week periods ended	
	Note	August 30, 2020	September 1, 2019	August 30, 2020	September 1, 2019
Net revenue	17	$ 200,155	$ 241,178	$ 311,544	$ 437,877
Cost of goods sold	1, 15	129,719	145,751	228,047	256,889
Gross profit		70,436	95,427	83,497	180,988
Operating expenses					
Selling, general and administrative	1	60,151	60,567	103,662	114,996
Stock-based compensation expense	13, 15	2,147	1,942	3,126	4,316
Income (loss) from operations		8,138	32,918	(23,291)	61,676
Finance expense	7,15	7,355	7,157	14,745	14,384
Other expense (income)	15	1,345	664	127	(615)
(Loss) income before income taxes		(562)	25,097	(38,163)	47,907
Income tax expense (recovery)	16	312	7,177	(10,818)	13,831
Net (loss) income		$ (874)	$ 17,920	$ (27,345)	$ 34,076
Net (loss) income per share					
Basic	14	$ (0.01)	$ 0.17	$ (0.25)	$ 0.32
Diluted	14	(0.01)	0.16	(0.25)	0.31
Weighted average number of shares outstanding (thousands)					
Basic	14	109,396	107,974	109,375	107,982
Diluted	14	109,396	111,537	109,375	111,696

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 and 26-week periods ended August 30, 2020 and September 1, 2019

(Unaudited, in thousands of Canadian dollars)

	13-week periods ended		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Net (loss) income	$ (874)	$ 17,920	$ (27,345)	$ 34,076
Other comprehensive income (loss)				
Items that are or may be reclassified subsequently to net income (loss):				
Foreign currency translation adjustment	759	360	216	(243)
Comprehensive (loss) income	$ (115)	$ 18,280	$ (27,129)	$ 33,833

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 26-week periods ended August 30, 2020 and September 1, 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	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	-	-	-	-	-	34,076	-	34,076
Options exercised (note 13)	-	-	521,733	6,933	(4,124)	-	-	2,809
Stock-based compensation expense on equity-settled plans (note 13)	-	-	-	-	3,736	-	-	3,736
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	-	-	-	-	-	-	(243)	(243)
Balance, September 1, 2019	24,537,349	$ 17,737	83,592,182	$ 182,279	$ 65,418	$ 408	$ (596)	$ 265,246
Balance, March 1, 2020	24,537,349	$ 17,737	84,811,212	$ 201,313	$ 57,221	$ 56,476	$ (682)	$ 332,065
Net loss	-	-		-	-	(27,345)	-	(27,345)
Options exercised (note 13)	-	-	161,411	2,287	(1,608)	-	-	679
Stock-based compensation expense on equity-settled plans (note 13)	-	-	-	-	2,585	-	-	2,585
Shares repurchased for cancellation (note 12)	-	-	(38,664)	(92)	-	(486)	-	(578)
Foreign currency translation adjustment	-	-	-	-	-	-	216	216
Balance, August 30, 2020	24,537,349	$ 17,737	84,933,959	$ 203,508	$ 58,198	$ 28,645	$ (466)	$ 307,622

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 and 26-week periods ended August 30, 2020 and September 1, 2019

(Unaudited, in thousands of Canadian dollars)

	Note	13-week periods ended		26-week periods ended	
		August 30, 2020	September 1, 2019	August 30, 2020	September 1, 2019
Operating activities					
Net (loss) income for the period		$ (874)	$ 17,920	$ (27,345)	$ 34,076
Adjustments for:					
Depreciation and amortization	15	9,450	7,995	18,815	16,833
Depreciation on right-of-use-assets	7	16,586	14,671	33,034	29,031
Finance expense	15	7,355	7,157	14,745	14,384
Stock-based compensation expense	13, 15	2,147	1,942	3,126	4,316
Amortization of deferred lease inducements		(175)	(136)	(379)	(256)
Unrealized (gain) loss on equity derivative contracts		(80)	-	716	-
Other		-	(19)	(60)	(19)
Income tax expense (recovery)	16	312	7,177	(10,818)	13,831
Proceeds from lease incentives		2,580	5,545	4,315	6,810
Cash generated before non-cash working capital balances and interest and income taxes		37,301	62,252	36,149	119,006
Net change in non-cash working capital balances	20	(17,397)	(21,461)	10,780	(19,602)
Cash generated before interest and income taxes		19,904	40,791	46,929	99,404
Interest paid		(1,101)	(1,154)	(2,396)	(2,372)
Interest paid on lease liabilities		(6,935)	(5,996)	(8,686)	(11,972)
Income taxes paid		(283)	(9,063)	(283)	(19,803)
Net cash generated from operating activities		11,585	24,578	35,564	65,257
Financing activities					
(Repayment of) proceeds from revolving credit facility		-	(5,000)	100,000	20,000
Repayment of principal on lease liabilities	7	(14,720)	(14,898)	(18,059)	(29,712)
Proceeds from options exercised	13	508	1,955	679	2,809
Shares repurchased for cancellation	12	-	-	(523)	(107,039)
Net cash (used in) generated from financing activities		(14,212)	(17,943)	82,097	(113,942)
Investing activities					
Purchase of property and equipment	6	(13,108)	(11,439)	(26,446)	(21,209)
Purchase of intangible assets	6	(58)	(532)	(600)	(928)
Net cash used in investing activities		(13,166)	(11,971)	(27,046)	(22,137)
Effect of exchange rate changes on cash and cash equivalents		(1,266)	(435)	(1,111)	(89)
(Decrease) increase in cash and cash equivalents		(17,059)	(5,771)	89,504	(70,911)
Cash and cash equivalents - Beginning of period		224,313	35,757	117,750	100,897
Cash and cash equivalents - End of period		$ 207,254	$ 29,986	$ 207,254	$ 29,986
Supplemental cash flow information (note 20)					

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

(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 August 30, 2020, the Company had 97 retail boutiques (September 1, 2019 – 93 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 October 14, 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, 2020, 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 its people and clients. As of August 30, 2020, 93 boutiques had reopened with restrictive measures in place. As of September 9, 2020, all boutiques had reopened.

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 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 and 26-week periods ended August 30, 2020, the Company recognized payroll subsidies of $11.5 million and $27.9 million, respectively under the above mentioned programs. The subsidies were recorded 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. As at August 30, 2020, the Company had $16.8 million of wage subsidies receivable recorded in prepaid expenses and other current assets.

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). The Company is continuing to actively negotiate with its landlords. For the 13-week and 26-week periods ended August 30, 2020, the Company recognized $5.1 million and $6.8 million, respectively, of lease concessions in cost of goods sold and selling, general and administrative expenses in the consolidated statements of operations.

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

The Company also qualified for and has deferred certain corporate income tax, payroll and sales tax payments. As at August 30, 2020, the Company has deferred $10.2 million relating to tax payments that would have otherwise been paid during the first two fiscal quarters of Fiscal 2021 to subsequent quarters of Fiscal 2021.

Net revenue is reported net of an estimated allowance for returns. As a result of its temporary boutique closures, the Company extended its return policies for purchases made online and in-boutiques. During the 13-week period ended August 30, 2020, the Company resumed its return policies prior to its temporary boutique closures.

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 of this analysis, as at August 30, 2020, the Company did not recognize any additional inventory provisions due to the impact of 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 $5.1 million, to be applied to income taxes payable in prior periods, and a decrease to total income tax expense of $1.4 million for the 26-week period ended August 30, 2020.

The temporary boutique closures as a result of COVID-19 in the first quarter of Fiscal 2021 and the associated reduction in revenue were considered to be an indicator of impairment in the first quarter of Fiscal 2021. During the 13-week period ended May 31, 2020, the Company performed a recoverability assessment for its property and equipment, definite life intangible assets and right-of-use assets and as at May 31, 2020, the Company determined that that there was no impairment.

During the 13-week ended May 31, 2020, the Company also performed an impairment test over goodwill and indefinite life intangible assets and as at May 31, 2020, the Company determined that there was no impairment.

The Company’s operations were significantly impacted by the COVID-19 pandemic during the first two quarters 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.

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

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 became effective for annual reporting periods beginning on or after June 1, 2020. Earlier application was permitted. The Company adopted the amendment effective for the annual period ending February 28, 2021 and has elected to apply the provided practical expedient. The Company accounts 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.

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

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

	August 30, 2020	March 1, 2020
Finished goods	$ 117,379	$ 84,601
Finished goods in transit	23,482	9,433
	$ 140,861	$ 94,034

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 $1.6 million and $2.3 million for the 13-week and 26-week periods ended August 30, 2020 (13-week and 26-week periods ended September 1, 2019 - $0.6 million and $1.0 million, respectively). 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 and 26-week periods ended August 30, 2020, the Company had property and equipment additions of $12.7 million and $21.7 million, respectively, 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 (13-week and 26-week periods ended September 1, 2019 - $15.3 million and $22.8 million, respectively). During the same periods, the Company also had intangible asset additions of $nil and $0.3 million, respectively, the majority of which were related to internally developed computer software (13-week and 26-week periods ended September 1, 2019 - $0.6 million and $1.0 million, respectively).

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

7 Leases

The following table reconciles the change in right-of-use assets for the 26-week period ended August 30, 2020:

		Right-of-use assets
Cost		
Balance, March 1, 2020	$	439,870
Additions, net of lease incentives received		54,110
Modifications		(611)
Foreign exchange		(6,430)
Balance, August 30, 2020	$	486,939
Accumulated depreciation		
Balance, March 1, 2020	$	59,510
Depreciation		33,034
Foreign exchange		(1,740)
Balance, August 30, 2020	$	90,804
Net carrying value		
Balance, March 1, 2020	$	380,360
Balance, August 30, 2020	$	396,135

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

The following table reconciles the change in lease liabilities for the 26-week period ended August 30, 2020:

		Lease liabilities
Balance, March 1, 2020	$	510,527
Additions		56,849
Accretion of lease liabilities (note 15)		12,196
Repayment of interest and principal on lease liabilities		(26,745)
Modifications		(673)
Foreign exchange		(7,711)
Balance, August 30, 2020	$	544,443
Current portion of lease liabilities		84,273
Lease liabilities		460,170
	$	544,443

8 Accounts payable and accrued liabilities

		August 30, 2020		**March 1, 2020**
Trade accounts payable	$	86,259	$	36,084
Other non-trade payables		16,829		6,856
Employee benefits payable		19,229		14,775
	$	122,317	$	57,715

9 Other non-current liabilities

		August 30, 2020		**March 1, 2020**
Deferred lease inducements	$	6,528	$	6,029
Deferred payroll taxes (note 1)		905		-
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 13)		3,602		3,061
Asset retirement obligations		360		361
	$	11,395	$	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

	August 30, 2020	March 1, 2020
Term loan	$ 75,000	$ 75,000
Less: Deferred financing fees	(203)	(260)
Long-term debt	$ 74,797	$ 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 August 30, 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 August 30, 2020, $100.0 million was drawn from the revolving credit facility. Subsequent to August 30, 2020, on October 9, 2020, the Company repaid the $100.0 million 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 $27.5 million (March 1, 2020 - $46.5 million) by certain open letters of credit (note 18(b)).

The Credit Facilities are collateralized by a first priority lien on all property and equipment, leased real property interests and inventory. In addition, the Company is to maintain certain financial covenants. As at August 30, 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 and 26-week periods ended August 30, 2020, the Company recorded an unrealized gain of $0.1 million and loss of $0.7 million, respectively, for the change in fair value for these contracts in the consolidated statements of operations in other income (13-week and 26-week periods ended September 1, 2019 – not applicable). As at August 30, 2020, the equity derivative contracts had a negative fair value of $0.1 million (March 1, 2020 – 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 ended 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 26-week period ended August 30, 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 August 30, 2020, there were 24,537,349 multiple voting shares and 84,933,959 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at August 30, 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 26-week periods ended			
	August 30, 2020		September 1, 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	(146,261)	3.12	(397,812)	2.78
Outstanding, at end of period	3,478,722	$ 4.93	4,683,905	$ 4.79

Stock-based compensation expense in relation to the options under the Legacy Plan for the 13-week and 26-week periods ended August 30, 2020 was $0.2 million and $0.4 million (13-week and 26-week periods ended September 1, 2019 - $0.5 million and $1.1 million, respectively).

(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 26-week periods ended			
	August 30, 2020		September 1, 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	1,171,365	18.40	295,042	17.76
Exercised	(15,150)	14.73	(123,921)	13.75
Forfeited	(113,133)	14.98	(355,367)	13.67
Outstanding, at end of period	5,201,606	$ 15.94	4,583,481	$ 15.11

The weighted average fair value of the time-based stock options granted during the 26-week period ended August 30, 2020 was estimated at the date of grant based on the Black-Scholes option pricing model using the following assumptions:

Dividend yield	0.0%
Expected volatility	35.5% to 36.1%
Risk-free interest rate	0.4%
Expected life	6.0 to 7.0 years
Exercise price	$18.29 to $19.20

Stock-based compensation expense in relation to the options under the Option Plan for the 13-week and 26-week periods ended August 30, 2020 was $1.3 million and $2.2 million (13-week and 26-week periods ended September 1, 2019 - $1.0 million and $2.6 million, respectively).

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

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 $2.6 million at August 30, 2020 (March 1, 2020 – $2.4 million), with an expense of $0.3 million and $0.1 million for the 13-week and 26-week periods ended August 30, 2020, respectively (13-week and 26-week periods ended September 1, 2019 - $0.3 million and $0.4 million, respectively), recorded as stock-based compensation expense.

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

	For the 26-week periods ended	
	August 30, 2020	**September 1, 2019**
	Number of DSUs	**Number of DSUs**
Outstanding, at beginning of period	108,959	65,191
Granted	25,888	21,797
Outstanding, at end of period	134,847	86,988

(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 $1.0 million as at August 30, 2020 (March 1, 2020 – $0.7 million), with an expense of $0.3 million and $0.4 million for the 13-week and 26-week periods ended August 30, 2020, respectively (13-week and 26-week periods ended September 1, 2019 - $0.1 million and $0.2 million, respectively), recorded as stock-based compensation expense.

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

	For the 26-week periods ended	
	August 30, 2020	**September 1, 2019**
	Number of RSUs	**Number of RSUs**
Outstanding, at beginning of period	145,790	38,099
Granted	171,909	85,739
Forfeited	(2,842)	(7,338)
Outstanding, at end of period	314,857	116,500

(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		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Net (loss) income attributable to shareholders of the Company	$ (874)	$ 17,920	$ (27,345)	$ 34,076
Weighted average number of shares outstanding during the period (thousands)	109,396	107,974	109,375	107,982
Basic net (loss) income per share	$ (0.01)	$ 0.17	$ (0.25)	$ 0.32

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		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Net (loss) income attributable to shareholders of the Company	$ (874)	$ 17,920	$ (27,345)	$ 34,076
Weighted average number of shares for net (loss) income per diluted share (thousands)	109,396	111,537	109,375	111,696
Net (loss) income per diluted share	$ (0.01)	$ 0.16	$ (0.25)	$ 0.31

For the 13-week and 26-week period ended August 30, 2020, 8,680,328 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		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Cost of goods sold				
Inventory and product-related costs and occupancy costs (note 1)	$ 105,993	$ 125,193	$ 180,910	$ 215,162
Depreciation expense on right-of-use-assets (note 7)	16,129	14,207	32,119	28,098
Depreciation expense on property and equipment	7,597	6,351	15,018	13,629
	$ 129,719	$ 145,751	$ 228,047	$ 256,889

	13-week periods ended		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Personnel expenses				
Salaries, wages and employee benefits	$ 54,305	$ 45,558	$ 103,322	$ 88,863
Stock-based compensation expense	2,147	1,942	3,126	4,316
Government payroll subsidies (note 1)	(11,491)	-	(27,930)	-
	$ 44,961	$ 47,500	$ 78,518	$ 93,179

	13-week periods ended		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Finance expense				
Interest expense on lease liabilities (note 7)	$ 6,035	$ 5,996	$ 12,196	$ 11,972
Interest expense and banking fees	1,267	1,108	2,443	2,306
Amortization of deferred financing fees	53	53	106	106
	$ 7,355	$ 7,157	$ 14,745	$ 14,384

	13-week periods ended		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Other expense (income)				
Realized foreign exchange gain	$ (2,186)	$ (602)	$ (3,124)	$ (777)
Unrealized foreign exchange loss	3,896	1,509	3,238	545
Unrealized (gain) loss on equity derivative contracts	(81)	-	715	-
Interest and other income	(284)	(243)	(702)	(383)
	$ 1,345	$ 664	$ 127	$ (615)

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

16 Income taxes

The income tax expense (recovery) 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 and 26-week periods ended August 30, 2020 is 26.7% (13-week and 26-week periods ended September 1, 2019 – 26.8%). The Company's effective income tax rate for the 13-week and 26-week periods ended August 30, 2020 is 55.5% and 28.3%, respectively (13-week and 26-week periods ended September 1, 2019 – 28.6% and 28.9%, respectively). The effective tax rates are driven by the proportionate amount of non-deductible stock-based compensation expense on equity settled plans relative to net (loss) income.

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		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Canada	$ 142,077	$ 166,254	$ 216,049	$ 287,504
United States	58,078	74,924	95,495	150,373
	$ 200,155	$ 241,178	$ 311,544	$ 437,877

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:

	August 30, 2020	**March 1, 2020**
Canada	$ 480,570	$ 483,112
United States	317,333	297,434
	$ 797,903	$ 780,546

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

18 Commitments and contingencies

a) Product purchase obligations

At August 30, 2020, the Company had purchase obligations of $34.8 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 August 30, 2020, the Company had open letters of credit of $47.5 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 and 26-week periods ended August 30, 2020, the Company made payments of $1.4 million and $2.0 million, respectively (13-week and 26-week periods ended September 1, 2019 - $1.0 million and $2.0 million, respectively) for a lease of premises and management services and $0.3 million and $0.3 million, respectively (13-week and 26-week periods ended September 1, 2019 - $0.1 million and $0.3 million, respectively) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. At August 30, 2020, $0.3 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		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Salaries, directors' fees and short-term benefits	$ 961	$ 1,113	$ 2,057	$ 2,035
Stock-based compensation expense	751	780	840	1,376
	$ 1,712	$ 1,893	$ 2,897	$ 3,411

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

20 Supplemental cash flow information

	13-week periods ended		26-week periods ended	
	August 30, 2020	**September 1, 2019**	**August 30, 2020**	**September 1, 2019**
Net change in non-cash working capital balances				
Accounts receivable	$ 451	$ (296)	$ 1,106	$ 1,450
Prepaid expenses and other current assets	1,106	(252)	(18,509)	(1,372)
Inventory	(27,689)	(27,724)	(47,696)	(24,172)
Other assets	351	(418)	428	(443)
Accounts payable and accrued liabilities	10,584	5,842	72,750	3,958
Deferred revenue	(2,200)	1,387	2,701	977
	$ (17,397)	$ (21,461)	$ 10,780	$ (19,602)
Supplemental cash flow information				
Accrued purchases of property and equipment			$ 2,010	$ 5,987
Accrued purchases of intangible assets			47	24

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 United States. 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.

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

As at August 30, 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 $0.1 million on net (loss) income.

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 and 26-week periods ended August 30, 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 and $0.4 million, respectively, 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. As at August 30, 2020, an increase (or decrease) in the Company's share price by $1.00 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 August 30, 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. Subsequent to August 30, 2020, on October 9, 2020, the Company repaid the $100.0 million revolving credit facility. As at August 30, 2020, the Company also had available credit of $75.0 million under trade finance agreements (March 1, 2020 – $75.0 million), of which $47.5 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 August 30, 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	122,317	-	-	122,317
Assumed interest on long-term debt [(1)]	1,877	1,371	-	3,248
Long-term debt	-	75,000	-	75,000
Total	$ 224,194	$ 76,371	$ -	$ 300,565

(1) Based on interest rates in effect as at August 30, 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 an 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.

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