ARITZIA

Aritzia Inc.

Consolidated Financial Statements
February 28, 2021 and March 1, 2020
(in thousands of Canadian dollars)

Independent auditor's report

To the Shareholders of Aritzia Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Aritzia Inc. and its subsidiaries (together, the Company) as at February 28, 2021 and March 1, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at February 28, 2021 and March 1, 2020;
- the consolidated statements of operations for the years then ended;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended February 28, 2021. These matters were

addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Inventory *Refer to note 2 – Summary of significant accounting policies, note 4 – Critical accounting estimates and judgments and note 5 – Inventory to the consolidated financial statements.* As at February 28, 2021, the Company held inventory of $171.8 million including finished goods in transit of $48.9 million. Inventory is carried at the lower of cost and net realizable value. Cost is determined using weighted average costs. Cost of inventory includes the cost of merchandise and all costs incurred to deliver inventory to the Company's distribution centres, including freight and duty. Management periodically reviews inventory and makes provisions to value obsolete or damaged goods. We considered this a key audit matter due to the number of inventory locations at which inventory was held, the audit effort involved in testing the inventory in transit balance, and the judgment applied by management in estimating the inventory provisions.	Our approach to addressing the matter included the following procedures, among others: • Tested the operating effectiveness of relevant controls relating to the accounting for inventory, including the mathematical accuracy of the weighted average cost method. • Tested a sample of inventory items to purchase invoices. • Observed the inventory count process for all distribution centres and for a sample of stores near year-end and performed independent test counts. • Tested on a sample basis, the finished goods in transit at year-end by agreeing to third party shipment documents, inventory receipts to distribution centres, and purchase invoices. • Tested on a sample basis, inventory received post year-end to shipping documents to assess whether inventory was recorded appropriately at year end. • Tested how management estimated the inventory provisions in determining net realizable value, which included the following: – Tested a sample of inventory items to the most recent retail prices of the inventory items. – Tested the underlying data used in the inventory provisions for obsolete or damaged goods, and evaluated the reasonableness of the percentage of write-down applied to the obsolete or damaged goods inventory by considering the historical write-downs and performing a sensitivity analysis.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report, which is expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Robert Coard.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
May 11, 2021

Aritzia Inc.

Consolidated Statements of Financial Position

As at February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars)

	Note	February 28, 2021	March 1, 2020
Assets			
Current assets			
Cash and cash equivalents		$ 149,147	$ 117,750
Accounts receivable		6,202	6,555
Income taxes recoverable	18	4,719	2,157
Inventory	5	171,821	94,034
Prepaid expenses and other current assets	1,12	23,452	10,880
Total current assets		355,341	231,376
Property and equipment	1,6	189,568	184,637
Intangible assets	1,7	62,049	63,867
Goodwill	1,7	151,682	151,682
Right-of-use assets	1,8	363,417	380,360
Other assets		2,886	4,315
Deferred tax assets	18	15,794	20,478
Total assets		$ 1,140,737	$ 1,036,715
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	$ 131,893	$ 57,715
Income taxes payable	18	8,287	3,198
Current portion of lease liabilities	8	71,452	63,440
Deferred revenue		37,563	29,490
Total current liabilities		249,195	153,843
Lease liabilities	8	423,380	447,087
Other non-current liabilities	10	15,059	9,451
Deferred tax liabilities	18	17,985	19,529
Long-term debt	11,12	74,855	74,740
Total liabilities		$ 780,474	$ 704,650
Shareholders' equity			
Share capital	13	$ 228,665	$ 219,050
Contributed surplus		56,606	57,221
Retained earnings		75,216	56,476
Accumulated other comprehensive loss		(224)	(682)
Total shareholders' equity		360,263	332,065
Total liabilities and shareholders' equity		$ 1,140,737	$ 1,036,715

Commitments and contingencies (notes 8 and 20)

Approved by the Board of Directors

_____Brian Hill_____ Director _____John Currie_____ Director

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

Aritzia Inc.

Consolidated Statements of Operations

For the years ended February 28, 2021 and March 1, 2020

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

	Note	February 28, 2021	March 1, 2020
Net revenue	1, 16, 19	$ 857,323	$ 980,589
Cost of goods sold	1, 17	544,818	577,165
Gross profit		312,505	403,424
Operating expenses			
Selling, general and administrative	1	250,726	243,362
Stock-based compensation expense	14, 17	10,691	7,790
Income from operations		51,088	152,272
Finance expense	8,17	28,420	28,319
Other income	17	(3,534)	(2,185)
Income before income taxes		26,202	126,138
Income tax expense	18	6,975	35,544
Net income		$ 19,227	$ 90,594
Net income per share			
Basic	15	$ 0.18	$ 0.84
Diluted	15	0.17	0.81
Weighted average number of shares outstanding (thousands)			
Basic	15	109,487	108,411
Diluted	15	112,844	112,128

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

Aritzia Inc.

Consolidated Statements of Comprehensive Income

For the years ended February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars)

	February 28, 2021	March 1, 2020
Net income	$ 19,227	$ 90,594
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to net income:		
Foreign currency translation adjustment	458	(329)
Comprehensive income	$ 19,685	$ 90,265

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

Aritzia Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended February 28, 2021 and March 1, 2020

(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	-	-	-	-	-	90,594	-	90,594
Options exercised (note 14)	-	-	1,773,363	26,038	(14,411)	-	-	11,627
Stock-based compensation expense on option plans (note 14)	-	-	-	-	5,826	-	-	5,826
Share exchange at March 2019 Secondary Offering (note 13)	(14,996,824)	(10,841)	14,996,824	10,841	-	-	-	-
Shares repurchased for cancellation (notes 1 and 13)	(4,997,595)	(3,613)	(1,368,658)	(2,892)	-	(101,055)	-	(107,560)
Foreign currency translation adjustment	-	-	-	-	-	-	(329)	(329)
Balance, March 1, 2020	24,537,349	$ 17,737	84,811,212	$ 201,313	$ 57,221	$ 56,476	$ (682)	$ 332,065
Net Income	-	-	-	-	-	19,227	-	19,227
Options exercised (note 14)	-	-	643,922	9,707	(6,645)	-	-	3,062
Stock-based compensation expense on option plans (note 14)	-	-	-	-	6,030	-	-	6,030
Shares repurchased for cancellation (note 13)	-	-	(38,664)	(92)	-	(487)	-	(579)
Foreign currency translation adjustment	-	-	-	-	-	-	458	458
Balance, February 28, 2021	24,537,349	$ 17,737	85,416,470	$ 210,928	$ 56,606	$ 75,216	$ (224)	$ 360,263

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

Aritzia Inc.

Consolidated Statements of Cash Flows

For the years ended February 28, 2021 and March 1, 2020

(in thousands of Canadian dollars)

	Note	February 28, 2021	March 1, 2020
Operating activities			
Net income for the period		$ 19,227	$ 90,594
Adjustments for:			
Depreciation and amortization	6, 7, 17	38,871	34,422
Depreciation on right-of-use-assets	8, 17	66,278	59,080
Finance expense	17	28,420	28,319
Stock-based compensation expense	14, 17	10,691	7,790
Amortization of deferred lease inducements		(934)	(689)
Unrealized gain on equity derivative contracts	12	(3,701)	(650)
Income tax expense	18	6,975	35,544
Rent concessions relating to lease liabilities	1, 8	(13,903)	-
Proceeds from lease incentives		8,319	11,537
Cash generated before non-cash working capital balances and interest and income taxes		160,243	265,947
Net change in non-cash working capital balances	22	3,913	18,625
Cash generated before interest and income taxes		164,156	284,572
Interest paid		(4,651)	(4,429)
Interest paid on lease liabilities		(22,887)	(23,763)
Income taxes paid		(2,671)	(34,304)
Net cash generated from operating activities		133,947	222,076
Financing activities			
Proceeds from revolving credit facility	11	100,000	25,000
Repayment of revolving credit facility	11	(100,000)	(25,000)
Repayment of principal on lease liabilities	8	(51,444)	(61,469)
Proceeds from options exercised	14	3,062	11,627
Shares repurchased for cancellation	13	(523)	(107,560)
Net cash used in financing activities		(48,905)	(157,402)
Investing activities			
Purchase of property and equipment	6	(50,255)	(45,591)
Purchase of intangible assets	7	(593)	(2,199)
Net cash used in investing activities		(50,848)	(47,790)
Effect of exchange rate changes on cash and cash equivalents		(2,797)	(31)
Increase in cash and cash equivalents		31,397	16,853
Cash and cash equivalents - Beginning of year		117,750	100,897
Cash and cash equivalents - End of year		$ 149,147	$ 117,750

Supplemental cash flow information (note 22)

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

(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 in its boutiques and online. Each of the Company's exclusive brands has its own vision and distinct aesthetic point of view. As at February 28, 2021, the Company had 101 retail boutiques (March 1, 2020 – 96 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared on a historical cost basis, except for derivative instruments, deferred share units and restricted share units, as disclosed in the accounting policies set out in note 2. These consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

(in thousands of Canadian dollars, unless otherwise noted)

The Company's fiscal year-end is the Sunday closest to the last day of February, typically resulting in a 52-week year, but occasionally giving rise to an additional week, resulting in a 53-week year. All references to 2021 and 2020 represent the fiscal years ended February 28, 2021 and March 1, 2020, respectively.

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 consolidated financial statements were authorized for issue on May 11, 2021 by the Company's Board of Directors.

COVID-19 Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a worldwide pandemic. 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 as the Company continued with its eCommerce business. On May 7, 2020, the Company began a phased reopening of its retail boutiques. As part of the reopening plan, the Company implemented extensive health and safety measures designed to protect its people and clients and communities. As of September 9, 2020, all of the Company's boutiques had reopened. Beginning November 23, 2020 and through the fourth quarter, as a result of the resurgence of COVID-19 and in in line with government regulations, the Company temporarily reclosed 39 of its boutiques primarily located in Ontario and Quebec. As at February 28, 2021, 18 of these boutiques remained temporarily closed.

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 and Emergency Rent Subsidy programs 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 year ended February 28, 2021, the Company recognized payroll subsidies of $32.6 million and $1.1 million of rent subsidies under the above mentioned programs. The payroll subsidies were recorded as a reduction in the associated eligible salaries and wage costs, recognized in cost of goods sold and selling, general and administrative expenses in the consolidated statements of operations. The rent subsidies were recorded as a reduction in store occupancy costs in cost of goods sold in the consolidated statements of operations. As at February 28, 2021, the Company had $5.0 million of payroll subsidies and $1.1 million of rent subsidies receivable recorded in prepaid expenses and other current assets.

In May 2020, the IASB issued guidance in relation to accounting for rent concessions resulting from COVID-19. The Company has elected to apply the issued guidance for the annual period ended February 28, 2021 (note 3). For the year ended February 28, 2021, the Company recognized $17.5 million of rent and occupancy

(in thousands of Canadian dollars, unless otherwise noted)

concessions in cost of goods sold and selling, general and administrative expenses in the consolidated statements of operations.

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 in these boutiques.

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 $5.6 million, to be applied to income taxes payable in prior periods, and a decrease to total income tax expense of $2.0 million for the year ended February 28, 2021.

The Company's operations were significantly impacted by the COVID-19 pandemic during Fiscal 2021. The extent of the impact of COVID-19 on future periods will depend on future developments, including the duration or resurgence of the pandemic and related government responses, 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

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Aritzia LP, domiciled in Canada, and United States of Aritzia Inc., domiciled in the U.S. All intercompany transactions and balances are eliminated on consolidation, and consistent accounting policies are applied across the Company.

Functional and presentation currency

The functional currency for each entity included in these consolidated financial statements is the currency of the primary economic environment in which the entity operates. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Translation of other foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currencies at the exchange rate at that date. Other consolidated statement of financial position items denominated in foreign currencies are translated into the functional currencies at the exchange rate prevailing at the respective transaction dates. Revenues and expenses denominated in foreign currencies are translated into the functional currencies at average exchange rates during the period. The resulting gains or losses on translation are included in the determination of net income.

(in thousands of Canadian dollars, unless otherwise noted)

U.S. operations

Assets and liabilities of the Company's U.S. operations have a functional currency of U.S. dollars and are translated into Canadian dollars at the exchange rate in effect at the reporting date. Revenues and expenses are translated into Canadian dollars at average exchange rates during the reporting period. The resulting unrealized translation gains or losses are included in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and investments in money market instruments with an original maturity of less than three months. As at February 28, 2021, the Company had no investments held in money market instruments classified as cash equivalents (March 1, 2020 - $92.9 million).

Prepaid expenses and other current assets

Prepaid expenses and other current assets comprise of prepaid expenses, deposits and packaging supplies. As at February 28, 2021, the Company had $5.0 million of government payroll subsidies and $1.1 million of government rent subsidies receivable recorded in prepaid expenses and other current assets.

Inventory

Inventory, consisting of finished goods, is carried at the lower of cost and net realizable value. Cost is determined using weighted average costs. Cost of inventories includes the cost of merchandise and all costs incurred to deliver inventory to the Company's distribution centres including freight and duty.

The Company periodically reviews its inventories and makes provisions as necessary to appropriately value obsolete or damaged goods. In addition, as part of inventory valuations, the Company accrues for inventory shrinkage for lost or stolen items based on historical trends.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including any costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The Company capitalizes borrowing costs incurred as part of the financing of the acquisition and construction of property and equipment. Maintenance and repairs are expensed as incurred. Cost and related accumulated depreciation for property and equipment are removed from the accounts upon their sale or disposition and the resulting gain or loss is reflected in the results of operations.

(in thousands of Canadian dollars, unless otherwise noted)

Depreciation is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property and equipment, commencing when the assets are ready for use, as follows:

Computer hardware and software	3 - 10 years
Furniture and equipment	3 - 10 years
Leasehold improvements	shorter of lease term and estimated useful life

Estimates of useful lives, residual values and methods of depreciation are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate. Depreciation expense is recorded in the consolidated statements of operations in cost of goods sold and selling, general and administrative expenses.

Intangible assets

Intangible assets are recorded at cost and include trade names, trademarks, non-competition agreements, retail leases and internally developed computer software.

Costs to purchase any trademarks from third parties are capitalized and amortized over the useful lives of the assets. Cost includes all expenditures that are directly attributable to the acquisition or development of the asset.

The Company capitalizes, in intangible assets, direct costs incurred during the application and infrastructure development stages of developing computer software for internal use. All costs incurred during the preliminary project stage, including project scoping, identification and testing of alternatives, are expensed as incurred.

The Aritzia trade name has been determined to have an indefinite life and is not amortized. The remaining intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Other trade names and trademarks	term of registration or up to a maximum of 20 years
Computer software	3 - 7 years

Estimates of useful lives, residual values and methods of amortization are reviewed annually. Any changes are accounted for prospectively as a change in accounting estimate. Amortization expense is recorded in the consolidated statements of operations in selling, general and administrative expenses.

Goodwill

Goodwill represents non-identifiable intangible assets acquired on business combinations.

(in thousands of Canadian dollars, unless otherwise noted)

Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating unit or "CGU"). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Leases

The Company assesses whether a contract is or contains a lease at the inception of the contract. Leases are recognized as a right-of-use asset and corresponding lease liability at the lease commencement date. The lease liability is measured at the present value of the future fixed and in-substance fixed payments and variable lease payments that depend on an index or rate over the lease term, less any lease incentives receivable, discounted using the lessee's incremental borrowing rate, unless the implicit interest rate in the lease can be easily determined. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

Lease terms applied are the contractual non-cancellable periods of the lease, plus periods covered by renewal or termination options, if the Company is reasonably certain to exercise those options. Lease liabilities are remeasured (with a corresponding adjustment to the right-of-use asset) when there is a change in the lease term, a change in the future lease payments resulting from a change in an index or rate used to determined those payments, or when the lease contract is modified and the lease modification is not accounted for as a separate lease.

The right-of-use assets include the initial measurement of the corresponding lease liabilities, lease payments at or before the commencement date, any initial direct costs, less any lease incentives received before the commencement date. The right-of-use assets are subsequently measured at cost and are depreciated on a straight-line basis from the date the underlying asset is available for use over the lease term.

Lease payments for assets that are exempt through the short-term exemption and variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liabilities and are recognized in cost of goods sold and selling, general and administrative expenses as incurred. Lease incentives received for variable payment leases are deferred and amortized as a reduction in recognized variable rent expenses over the related lease terms.

(in thousands of Canadian dollars, unless otherwise noted)

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company may be required to settle. The Company's asset retirement obligations are primarily associated with leasehold improvements that the Company is contractually obligated to remove at the end of a lease. At inception of a lease with such conditions, the Company recognizes the best estimate of the fair value of the liability, with a corresponding increase in the carrying value of the related asset. The liability, recorded in other non-current liabilities, is estimated based on a number of assumptions requiring management's judgment, including store closing costs, cost inflation rates and discount rates, and is accreted to its projected future value over time. The capitalized asset is depreciated over its useful life. Upon satisfaction of the asset retirement obligation conditions, differences between the recorded asset retirement obligation liability and the actual retirement costs incurred are recognized as a gain or loss in the consolidated statements of operations.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provision of the financial instrument. Financial assets are derecognized when the contractual rights to receive cash flows from the financial asset expire and financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The Company's financial assets, which includes cash and cash equivalents and accounts receivable, are classified as amortized cost. The Company's financial liabilities, which includes accounts payable and accrued liabilities and long term debt, are classified as amortized cost. The Company's foreign currency forward contracts and equity derivative contracts, if any, are classified as fair value through profit or loss ("FVTPL").

Financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method if both of the following conditions are met and they are not designated as FVTPL:

(i) the financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

(ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. All financial assets not classified as amortized cost as described above are measured at FVTPL.

Financial liabilities are initially measured at fair value, less any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method.

(in thousands of Canadian dollars, unless otherwise noted)

Changes of the fair value of financial instruments classified as FVTPL are recorded in profit or loss in the period in which they arise. Gains and losses on financial instruments classified at amortized cost are recognized in profit or loss when the financial instruments are derecognized, modified or impaired.

Financial assets and financial liabilities are measured at fair value using a valuation hierarchy for disclosure of fair value measurements. The determination of the applicable level within the hierarchy of a particular asset or liability depends on the inputs used in the valuation as of the measurement date, notably the extent to which the inputs are market-based (observable) or internally derived (unobservable). Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs based on a company's own assumptions about market participant assumptions using the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2 - Valuations based on quoted inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Share capital

Multiple voting shares and subordinate voting shares are classified as shareholders' equity. Incremental costs directly attributable to the issuance of shares are shown in equity as a deduction, net of tax, from the proceeds of the issuance. When share capital recognized as equity is re-purchased for cancellation, the amount of consideration paid, which includes directly attributable costs, net of tax, is recognized as a deduction from equity. The excess of the purchase price over the carrying amount of the shares is charged to retained earnings.

Revenue recognition

The Company recognizes revenue when control of the goods or services has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur.

(in thousands of Canadian dollars, unless otherwise noted)

Net revenue reflects the Company's sale of merchandise, less returns and discounts. Retail revenue at point-of-sale is measured at the fair value of the consideration received at the time the sale is made to the customer, net of discounts and estimated allowance for returns. For merchandise that is ordered and paid for in a boutique and subsequently picked up by or delivered to the customer, revenue is deferred until control of the merchandise has been transferred to the customer. eCommerce revenue is recognized at the date of estimated delivery to the customer, and measured at the fair value of the consideration received, net of discounts and an estimated allowance for returns. Shipping fees charged to customers are recorded as revenue.

Revenues are reported net of sales taxes collected for various governmental agencies.

Receipts from the sale of gift cards are treated as deferred revenue. When gift cards are redeemed for merchandise, the Company recognizes the related revenue. The Company estimates gift card breakage, to the extent there is no requirement for remitting card balances to government agencies under unclaimed property laws, and recognizes revenue in proportion to actual gift card redemptions as a component of net revenue.

Cost of goods sold

Cost of goods sold includes inventory and product-related costs and occupancy costs, as well as depreciation expense for the Company's stores and distribution centres.

Selling, general and administrative

Selling, general and administrative expenses consist of selling expenses that are generally variable with revenues and general and administrative operating expenses that are primarily fixed. Selling, general and administrative expenses also include depreciation and amortization expense for all support office assets and intangible assets.

Employee benefits

Short-term employee benefit obligations, which include wages, salaries, compensated absences and bonuses, are expensed as the related service is provided.

Termination benefits are recognized as an expense when the Company has demonstrated commitment, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

Government grants

The Company recognizes government grants when there is reasonable assurance that the Company has met the requirements of the grant program, and that the grant will be received. The Company recognizes government grants as a reduction to the related expense that the grant is intended to offset.

(in thousands of Canadian dollars, unless otherwise noted)

Income tax expense

Current and deferred income taxes are recognized in the Company's net income, except to the extent that they relate to a business combination or items recognized directly in equity or other comprehensive income.

Current taxes are recognized for the estimated taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting nor taxable income or loss. In addition, deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the asset and liability, using tax rates enacted or substantively enacted at the year-end date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(in thousands of Canadian dollars, unless otherwise noted)

Stock-based compensation expense

Stock Option Plans

Prior to the Company's initial public offering (the "IPO") the Company had a legacy equity incentive plan (the "Legacy Plan") pursuant to which it has granted time-based and performance-based stock options to directors, employees, consultants and advisors.

Concurrent with the IPO, the Company implemented a new stock option plan (the "Option Plan"), pursuant to which it can grant time-based stock options to acquire subordinate voting shares to directors, executive officers, employees and consultants.

For awards with service conditions that are subject to graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. In addition, the total amount of compensation expense to be recognized is based on the number of awards expected to vest and is adjusted to reflect those awards that do ultimately vest.

Deferred Share Units and Restricted Share Units

The Company has a Director Deferred Share Unit ("DSU") Program for non employee board members and a Restricted Share Unit ("RSU") Program for employees and consultants. DSUs and RSUs are grants of notional subordinate voting shares that are redeemable for cash based on the market value of the Company's shares and are non-dilutive to shareholders. The cost of the service received as consideration is initially measured based on the market value of the Company's shares at the date of grant. The grant-date fair value is recognized as stock-based compensation expense with a corresponding increase recorded in other liabilities. DSUs and RSUs are remeasured at each reporting date based on the market value of the Company's shares with changes in fair value recognized as stock-based compensation expense for the proportion of the service that has been rendered at that date.

Net income per share

Basic net income per share is calculated by dividing the net income for the fiscal year attributable to shareholders of the Company by the weighted average number of multiple voting shares and subordinate voting shares outstanding during the year.

Diluted net income per share is calculated by dividing the net income for the fiscal year attributable to shareholders of the Company by the weighted average number of multiple voting shares and subordinate voting shares outstanding during the year, plus the weighted average number of subordinate voting shares that would be issued on exercise of dilutive options granted, as calculated under the treasury stock method.

(in thousands of Canadian dollars, unless otherwise noted)

3 Significant new accounting standards

Standards early 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 ended 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 concessions 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, 2023. Earlier application is permitted. The Company does not plan to early adopt the amendments to IAS 1. The implementation of this amendment is not expected to have a significant impact on the Company.

4 Critical accounting estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, 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.

Significant judgments and estimates made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements include the following:

- Gift card breakage, which requires the use of judgment involving the estimation of the Company's average gift card breakage rate, based on historical redemption rates. The resulting revenue from breakage is recognized in proportion to actual gift card redemptions.

(in thousands of Canadian dollars, unless otherwise noted)

- Return allowances, which require judgement involving the estimation of the return rate of merchandise based on historical patterns of returns.
- The provision recorded to remeasure inventories based on the lower of cost and net realizable value (note 5), which is a critical estimate.
- Property and equipment and right-of-use asset impairment testing, which is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses, if any (note 6). These estimates include future cash flow projections, growth rates and discount rates.
- Goodwill and indefinite life intangible asset impairment testing, which requires management to make critical estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill and indefinite life intangible assets are impaired. The recoverable value is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates (note 7).
- Incremental borrowing rate used for calculating lease liabilities and right-of-use-assets. The Company determines the incremental borrowing rate of each leased asset as the rate of interest that the Company would have to pay to borrow, over a similar term with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment (note 8).
- Lease terms, which requires judgement on whether the Company is reasonably certain, at the lease commencement date, it will exercise available renewal or termination options, and thus include such options in the lease terms (note 8). The Company considers all facts and circumstances that create an economic incentive to exercise a renewal or termination option.
- Stock-based compensation expense, which requires the use of judgment in determining the most appropriate inputs, including estimates and assumptions with respect to expected life, risk-free interest rate, volatility and forfeiture rate (note 14).
- Income taxes, which requires judgment to determine when tax losses, credits and provisions are recognized based on tax rules in various jurisdictions (note 18).

5 Inventory

	February 28, 2021	March 1, 2020
Finished goods	$ 122,933	$ 84,601
Finished goods in transit	48,888	9,433
	$ 171,821	$ 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 $4.8 million for the year ended February 28, 2021 (March 1, 2020 - $2.1 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 11).

(in thousands of Canadian dollars, unless otherwise noted)

6 Property and equipment

	Leasehold improvements	Furniture and equipment	Computer hardware	Computer software	Construction-in-progress	Total
Cost						
Balance, March 3, 2019	207,311	49,865	15,447	7,014	8,281	287,918
Additions	26,723	6,446	2,543	338	11,707	47,757
Transfers from construction-in-progress	2,771	1,308	332	6	(4,417)	-
Dispositions	(4,696)	(1,249)	(319)	(409)	-	(6,673)
Foreign exchange	990	193	36	5	84	1,308
Balance, March 1, 2020	$ 233,099	$ 56,563	$ 18,039	$ 6,954	$ 15,655	$ 330,310
Additions	24,034	7,851	2,510	225	10,888	45,508
Transfers from construction-in-progress	11,758	1,333	602	905	(14,598)	-
Transfer to intangibles	-	-	-	(889)	-	(889)
Dispositions	(10,185)	(4,143)	(2,595)	(382)	-	(17,305)
Foreign exchange	(5,630)	(1,094)	(188)	(17)	(380)	(7,309)
Balance, February 28, 2021	$ 253,076	$ 60,510	$ 18,368	$ 6,796	$ 11,565	$ 350,315
Accumulated depreciation						
Balance, March 3, 2019	82,916	$ 22,878	$ 9,670	$ 4,861	$ -	$ 120,325
Depreciation	21,462	6,055	3,055	826	-	31,398
Dispositions	(4,652)	(1,246)	(319)	(409)	-	(6,626)
Foreign exchange	419	124	29	4	-	576
Balance, March 1, 2020	$ 100,145	$ 27,811	$ 12,435	$ 5,282	$ -	$ 145,673
Depreciation	23,919	7,584	3,225	811	-	35,539
Dispositions	(10,185)	(4,143)	(2,595)	(382)	-	(17,305)
Foreign exchange	(2,420)	(583)	(139)	(18)	-	(3,160)
Balance, February 28, 2021	$ 111,459	$ 30,669	$ 12,926	$ 5,693	$ -	$ 160,747
Net carrying value						
Balance, February 28, 2021	$ 141,617	$ 29,841	$ 5,442	$ 1,103	$ 11,565	$ 189,568
Balance, March 1, 2020	$ 132,954	$ 28,752	$ 5,604	$ 1,672	$ 15,655	$ 184,637

Construction-in-progress includes store build costs for stores not yet opened.

During the year ended February 28, 2021, interest of $87 was capitalized to assets under construction (March 1, 2020 - $165). These interest costs relating to qualifying assets were capitalized at a weighted average rate of 2.53% (March 1, 2020 – 3.49%).

(in thousands of Canadian dollars, unless otherwise noted)

7 Goodwill and intangible assets

	Indefinite life trade name	Definite life trade name	Trademarks	Computer software	Other intangible assets	Construction-in-progress	Total intangible assets
Cost							
Balance, March 3, 2019	46,092	17,175	1,919	30,714	3,519	1,198	100,617
Additions	-	-	90	304	-	2,070	2,464
Transfers from construction-in-progress	-	-	-	1,198	-	(1,198)	-
Dispositions	-	-	-	(7)	(3,519)	-	(3,526)
Balance, March 1, 2020	$ 46,092	$ 17,175	$ 2,009	$ 32,209	$ -	$ 2,070	$ 99,555
Additions	-	-	-	625	-	-	625
Transfers from construction-in-progress	-	-	-	2,070	-	(2,070)	-
Transfers from property, plant and equipment	-	-	-	889	-	-	889
Dispositions	-	-	-	(471)	-	-	(471)
Balance, February 28, 2021	$ 46,092	$ 17,175	$ 2,009	$ 35,322	$ -	$ -	$ 100,598
Accumulated amortization							
Balance, March 3, 2019	-	10,897	1,709	20,065	3,519	-	36,190
Amortization	-	656	-	2,368	-	-	3,024
Dispositions	-	-	-	(7)	(3,519)	-	(3,526)
Balance, March 1, 2020	$ -	$ 11,553	$ 1,709	$ 22,426	$ -	$ -	$ 35,688
Amortization	-	656	23	2,653	-	-	3,332
Dispositions	-	-	-	(471)	-	-	(471)
Balance, February 28, 2021	$ -	$ 12,209	$ 1,732	$ 24,608	$ -	$ -	$ 38,549
Net carrying value							
Balance, February 28, 2021	$ 46,092	$ 4,966	$ 277	$ 10,714	$ -	$ -	$ 62,049
Balance, March 1, 2020	$ 46,092	$ 5,622	$ 300	$ 9,783	$ -	$ 2,070	$ 63,867

Construction-in-progress includes internally generated computer software not put into use.

Until December 19, 2005, the operations of the Company were owned by a private, closely held Canadian company. On December 19, 2005, Berkshire purchased the majority of the operations through a newly created company, Aritzia Capital Corporation (renamed to Aritzia Inc.). The acquisition transaction was treated as a business combination and the identified assets and liabilities that were acquired were measured at their acquisition date fair values, including goodwill and the indefinite life trade name. During the years ended February 28, 2021 and March 1, 2020, there were no additions to goodwill.

Goodwill and the indefinite life trade name are monitored and allocated to the group of CGUs at a country level, based on the expected future benefits to be derived. The Company allocates goodwill to its Canadian operations only, while the Company allocates the indefinite life trade name to both Canadian and U.S. operations.

In assessing goodwill and the indefinite life trade name for impairment, the Company compared the aggregate recoverable amount of the assets included in each of the CGUs to their respective carrying amounts. The

(in thousands of Canadian dollars, unless otherwise noted)

recoverable amounts have been determined based on the higher of the value in use and fair value less costs of disposal.

The temporary boutique closures as a result of COVID-19 and the associated reduction of revenue during the 13-week period ended May 31, 2020 was considered to be an indicator of impairment. The Company performed a recoverability assessment in the first quarter of fiscal 2021 for its property and equipment, definite and indefinite life intangible assets, goodwill and right-of-use assets and determined that there was no impairment. The Company also performed its annual impairment test of goodwill and the indefinite life trade name on the first day of the fourth quarter in fiscal 2021 and fiscal 2020.

The recoverable amount of goodwill and the indefinite life trade name was based on value in use, calculated using discounted cash flows over five years with a terminal value generated from continuing use of the CGUs. Cash flows were projected based on actual operating results, annual growth assumptions of 2.00% to account for what management believes approximates inflationary increases, and terminal growth assumption of 2.00%. A pre-tax discount rate of 9.58% was used in the model. A decrease in the growth assumptions by 1.00% would not cause the carrying amount to exceed the estimated recoverable amount. A decrease of the pre-tax discount rate by 1.00% would not cause the carrying amount to exceed the estimated recoverable amount.

As at February 28, 2021 and March 1, 2020, management has determined that there was no impairment of goodwill or the indefinite life trade name.

8 Leases

The Company has the right to use real estate properties for its boutiques, distribution centers and support offices under non-cancellable lease agreements, together with periods covered by an option to extend or terminate, if the Company is reasonably certain it will exercise those options.

(in thousands of Canadian dollars, unless otherwise noted)

The following table reconciles the change in right-of-use assets for the year ended February 28, 2021:

		Right-of-use assets
Cost		
Balance, March 1, 2020	$	439,870
Additions, net of lease incentives received		67,171
Modifications		(7,464)
Foreign exchange		(15,565)
Balance, February 28, 2021	$	484,012
Accumulated depreciation		
Balance, March 1, 2020	$	59,510
Depreciation		66,278
Modifications		(1,408)
Foreign exchange		(3,785)
Balance, February 28, 2021	$	120,595
Net carrying value		
Balance, March 1, 2020	$	380,360
Balance, February 28, 2021	$	363,417

The following table reconciles the change in lease liabilities for the year ended February 28, 2021:

		Lease liabilities
Balance, March 1, 2020	$	510,527
Additions		73,311
Interest expense on lease liabilities (note 17)		23,671
Repayment of interest and principal on lease liabilities		(74,331)
Rent concessions applicable to lease liabilities		(13,903)
Modifications		(6,607)
Foreign exchange		(17,836)
Balance, February 28, 2021	$	494,832
Current portion of lease liabilities		71,452
Lease liabilities		423,380
	$	494,832

During the year ended February 28, 2021, the Company expensed $2.9 million of variable lease payments, which are not included in the lease liabilities (March 1, 2020 - $5.2 million).

(in thousands of Canadian dollars, unless otherwise noted)

During the year ended February 28, 2021, the Company expensed $1.0 million of lease payments relating to short-term leases for which the recognition exemption was applied and these payments were not included in the lease liabilities (March 1, 2020 – 1.3 million).

The future undiscounted minimum lease payments for the Company's leases for its premises, excluding other occupancy charges and variable lease payments, are as follows:

Less than 1 year	$	95,367
Between 1 and 5 years		335,436
More than 5 years		148,494
	$	579,297

As at February 28, 2021, the Company had future undiscounted minimum lease payments of $53.5 million for leases committed to but not yet commenced.

9 Accounts payable and accrued liabilities

		February 28, 2021		March 1, 2020
Trade accounts payable	$	96,540	$	36,084
Other non-trade payables		11,521		6,856
Employee benefits payable		23,040		14,775
Current portion of Restricted Share Unit Program liability (note 14)		792		-
	$	131,893	$	57,715

10 Other non-current liabilities

		February 28, 2021		March 1, 2020
Deferred lease inducements	$	6,920	$	6,029
Director Deferred Share Unit Program and Restricted Share Unit Program liability (note 14)		6,930		3,061
Deferred payroll taxes		852		-
Asset retirement obligations		357		361
	$	15,059	$	9,451

(in thousands of Canadian dollars, unless otherwise noted)

11 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

	February 28, 2021	March 1, 2020
Term loan	$ 75,000	$ 75,000
Less: Deferred financing fees	(145)	(260)
Long-term debt	$ 74,855	$ 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%).

During the year ended February 28, 2021 the Company incurred $3.2 million of interest (March 1, 2020 - $2.9 million), at a weighted average rate of 2.53% (March 1, 2020 – 3.49%). As at February 28, 2021, the interest rate on the loan was 2.20% (March 1, 2020 – 3.43%), based on a one-month BA rate.

The term loan requires mandatory loan prepayments by the Company of principal and interest if certain events occur. As at February 28, 2021 and March 1, 2020, the Company was not required to make a mandatory loan prepayment.

The Company defers third party costs and creditor fees directly associated with acquiring long-term debt. These deferred costs are classified against long-term debt and bank indebtedness and are amortized as finance expense over the expected life of the related indebtedness using the effective interest rate method.

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. During the year ended February 28, 2021, $100.0 million of the revolving credit facility was drawn and subsequently repaid (March 1, 2020 - $25.0 million drawn and subsequently repaid). As of February 28, 2021 and March 1, 2020, no advances were made under this 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 $33.7 million (March 1, 2020 - $46.5 million) by certain open letters of credit (note 20(b)).

(in thousands of Canadian dollars, unless otherwise noted)

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 February 28, 2021 and March 1, 2020, the Company was in compliance with all financial covenants.

12 Financial instruments

Accounting classification and fair values

The classification of financial instruments and their carrying amounts are as follows:

		February 28, 2021		March 1, 2020
Financial assets				
Cash and cash equivalents	$	149,147	$	117,750
Accounts receivable		6,202		6,555
Equity derivative contracts		4,369		650
Financial liabilities				
Accounts payable and accrued liabilities	$	131,893	$	57,715
Long-term debt (net of deferred financing fees)		74,855		74,740

The carrying value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximates their fair value due to the immediate or short-term maturity of these financial instruments. The fair value of the lease obligations is approximately equal to their carrying value. For the other financial liabilities, the fair value is as follows:

		February 28, 2021		March 1, 2020
Long-term debt (Level 2)	$	75,000	$	75,000
Equity derivative contracts (Level 2)		4,369		650

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 year ended February 28, 2021, the Company recorded an unrealized gain of $3.7 million for the change in fair value for these contracts in the consolidated statements of operations in other income (March 1, 2020 - $0.7 million). As at February 28, 2021, the equity derivative contracts had a positive fair value of $4.4 million (March 1, 2020 – $0.7 million) which is recorded in prepaid expenses and other current assets in the consolidated statements of financial position.

(in thousands of Canadian dollars, unless otherwise noted)

13 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.

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.

Between March 2, 2020 and March 17, 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.

As at February 28, 2021, there were 24,537,349 multiple voting shares and 85,416,470 subordinate voting shares issued and outstanding. There were no preferred shares issued and outstanding as at February 28, 2021. Neither the multiple voting shares nor the subordinate voting shares issued have a par value.

(in thousands of Canadian dollars, unless otherwise noted)

14 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. The options vest annually pro rata on the anniversary of the grant date over a period of five years. All issued options expire after 10 to 15 years from the date granted.

Transactions for stock options granted under the Legacy Plan for the years ended on February 28, 2021 and March 1, 2020 were as follows:

	February 28, 2021		March 1, 2020	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	3,624,983	$ 4.85	5,081,717	$ 4.64
Exercised	(565,659)	3.37	(1,325,988)	3.79
Forfeited	-	-	(130,746)	7.09
Outstanding, at end of year	3,059,324	$ 5.13	3,624,983	$ 4.85
Exercisable, at end of year	2,988,322	$ 5.08	3,251,195	$ 4.67

Information relating to stock options outstanding under the Legacy Plan and exercisable as at February 28, 2021 is as follows:

	Stock options outstanding			Stock options exercisable		
Exercise prices per share	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price
$0.01 to $4.72	871,985	2.18	$3.59	871,985	2.18	$3.59
$4.73 to $5.59	1,107,838	1.43	$5.01	1,107,838	1.43	$5.01
$5.60 to $7.09	1,079,501	4.92	$6.50	1,008,499	4.90	$6.45
	3,059,324	2.88	$5.13	2,988,322	2.82	$5.08

Stock-based compensation expense in relation to the options under the Legacy Plan for the year ended February 28, 2021 was $0.5 million (March 1, 2020 – $1.1 million).

(in thousands of Canadian dollars, unless otherwise noted)

Option Plan

The options vest annually pro rata on the anniversary of the grant date over a period of five years. All issued options expire after seven years from the date granted.

Transactions for stock options granted under the Option Plan for the years ended February 28, 2021 and March 1, 2020 were as follows:

	February 28, 2021		March 1, 2020	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
Outstanding, at beginning of year	4,158,524	$ 15.22	4,767,727	$ 14.81
Granted	1,272,766	18.82	385,408	18.44
Exercised	(78,263)	14.73	(447,375)	14.75
Forfeited	(144,749)	14.87	(547,236)	14.28
Outstanding, at end of year	5,208,278	$ 16.12	4,158,524	$ 15.22
Exercisable, at end of year	2,363,805	$ 15.13	1,629,235	$ 15.06

Information relating to stock options outstanding under the Option Plan and exercisable as at February 28, 2021 is as follows:

	Stock options outstanding			Stock options exercisable		
Exercise prices per share	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of stock options	Weighted average remaining contractual life (in years)	Weighted average exercise price
$12.99 to $14.12	1,621,389	3.69	$13.74	954,051	3.70	$13.76
$14.13 to $16.81	1,870,827	2.87	$15.83	1,305,654	2.85	$15.90
$16.82 to $26.38	1,716,062	6.12	$18.68	104,100	5.23	$18.13
	5,208,278	4.20	$16.12	2,363,805	3.29	$15.13

(in thousands of Canadian dollars, unless otherwise noted)

The weighted average fair value of the time-based stock options granted during the year ended February 28, 2021 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	34.7% to 36.1%
Risk-free interest rate	0.4% to 0.5%
Expected life	6.0 to 7.0 years
Exercise price	$18.29 to $26.38

Stock-based compensation expense in relation to the options under the Option Plan for the year ended February 28, 2021 was $5.5 million (March 1, 2020 - $4.8 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 $4.6 million at February 28, 2021 (March 1, 2020 – $2.4 million), with an expense of $2.2 million for the year ended February 28, 2021 (March 1, 2020 - $1.3 million), recorded as stock-based compensation expense.

Transactions for DSUs granted for the years ended on February 28, 2021 and March 1, 2020 were as follows:

	February 28, 2021	**March 1, 2020**
	Number of DSUs	**Number of DSUs**
Outstanding, at beginning of year	108,959	65,191
Granted	44,152	43,768
Outstanding, at end of year	153,111	108,959
Vested, at end of year	153,111	108,959

(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 $3.1 million as at February 28, 2021 (March 1, 2020 – $0.7 million), with an expense of $2.5 million for the year ended February 28, 2021 (March 1, 2020 - $0.6 million), recorded as stock-based compensation expense.

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

	February 28, 2021	**March 1, 2020**
	Number of RSUs	**Number of RSUs**
Outstanding, at beginning of year	145,790	38,099
Granted	208,405	116,364
Forfeited	(5,149)	(8,673)
Outstanding, at end of year	349,046	145,790
Vested, at end of year	-	-

(in thousands of Canadian dollars, unless otherwise noted)

15 Net income per share

a) Basic

Basic net income per share is calculated by dividing the 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 income per share calculations as if all shares are a single class.

	February 28, 2021	March 1, 2020
Net income attributable to shareholders of the Company	$ 19,227	$ 90,594
Weighted average number of shares outstanding during the period (thousands)	109,487	108,411
Basic net income per share	$ 0.18	$ 0.84

b) Diluted

Net income per diluted share is calculated by dividing the 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.

	February 28, 2021	March 1, 2020
Net income attributable to shareholders of the Company	$ 19,227	$ 90,594
Weighted average number of shares for net income per diluted share (thousands)	112,844	112,128
Net income per diluted share	$ 0.17	$ 0.81

(in thousands of Canadian dollars, unless otherwise noted)

16 Net Revenue

Net revenue disaggregated for boutiques and online sales was as follows:

	February 28, 2021	March 1, 2020
Retail net revenue	$ 431,394	$ 754,391
eCommerce net revenue	425,929	226,198
	$ 857,323	$ 980,589

17 Expenses by nature

	February 28, 2021	March 1, 2020
Cost of goods sold		
Inventory and product-related costs and occupancy costs (note 1)	$ 450,018	$ 492,403
Depreciation expense on right-of-use-assets (note 8)	64,405	57,229
Depreciation expense on property and equipment (note 6)	30,395	27,533
	$ 544,818	$ 577,165

	February 28, 2021	March 1, 2020
Personnel expenses		
Salaries, wages and employee benefits	$ 223,294	$ 184,556
Stock-based compensation expense	10,691	7,790
Government payroll subsidies (note 1)	(32,603)	-
	$ 201,382	$ 192,346

	February 28, 2021	March 1, 2020
Finance expense		
Interest expense on lease liabilities (note 8)	$ 23,671	$ 23,763
Interest expense and banking fees	4,537	4,344
Amortization of deferred financing fees	212	212
	$ 28,420	$ 28,319

	February 28, 2021	March 1, 2020
Other income		
Realized foreign exchange gain	$ (1,399)	$ (964)
Unrealized foreign exchange loss	3,149	593
Unrealized gain on equity derivative contracts (note 12)	(3,701)	(650)
Interest and other income	(1,583)	(1,164)
	$ (3,534)	$ (2,185)

(in thousands of Canadian dollars, unless otherwise noted)

18 Income taxes

a) Income tax expense

	February 28, 2021	March 1, 2020
Current tax expense		
Current period	$ 8,752	$ 35,254
Adjustments with respect to prior periods	(3,978)	(875)
	4,774	34,379
Deferred tax expense		
Origination and reversal of temporary differences	(776)	462
Adjustments with respect to prior periods	2,977	879
Changes in substantively enacted tax rates	-	(176)
	2,201	1,165
Income tax expense	$ 6,975	$ 35,544

b) Reconciliation of effective tax rate

The Company's income tax expense differs from that calculated by applying the combined substantively enacted Canadian federal and provincial statutory income tax rates for the years ended February 28, 2021 and March 1, 2020 of 26.7% and 26.8%, respectively, as follows:

	February 28, 2021	March 1, 2020
Income before income taxes	$ 26,202	$ 126,138
Expected income tax expense	$ 6,991	$ 33,805
Increase (decrease) in income taxes resulting from		
Non-deductible stock-based compensation	1,609	1,561
Foreign tax rate differences	38	164
Changes in substantively enacted tax rates	-	(176)
U.S. CARES Act true-up (note 1)	(1,965)	-
Other	302	190
Income tax expense	$ 6,975	$ 35,544

(in thousands of Canadian dollars, unless otherwise noted)

c) Deferred income tax

The tax effects of the significant temporary differences that comprise deferred tax assets and liabilities as at February 28, 2021 and March 1, 2020 are as follows:

	February 28, 2021	March 1, 2020
Deferred tax assets		
Capital leases	$ 35,772	$ 36,360
Accounts payable and accrued liabilities	4,079	1,494
Deferred revenue	2,799	1,600
Deferred lease liability	2,075	1,810
Other	2,045	1,034
Financing and share issuance costs	901	1,004
Stock-based compensation	892	637
Charitable contributions	385	204
Total deferred tax assets	48,948	44,143
Deferred tax liabilities		
Property and equipment	(26,627)	(19,393)
Goodwill and intangible assets	(24,478)	(23,664)
Other	(34)	(137)
Total deferred tax liabilities	(51,139)	(43,194)
Net deferred tax liability	$ (2,191)	$ 949

The net change in deferred income tax liabilities is recorded as follows:

	February 28. 2021	March 1, 2020
Deferred tax expense recorded in net income	$ 2,201	$ 1,166
Deferred tax expense (recovery recorded in retained earnings)	-	(14,271)
Deferred tax expense recorded in other comprehensive income (loss)	939	(240)
	$ 3,140	$ (13,345)

Of the deferred income tax balances, the Company expects $12.2 million of the deferred tax assets to be recovered within 12 months and $9.5 million of the deferred tax liabilities to be settled within 12 months.

The Company intends to indefinitely reinvest the undistributed earnings of its foreign subsidiaries; accordingly, the Company has not recorded a deferred tax liability on these earnings.

(in thousands of Canadian dollars, unless otherwise noted)

19 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:

	February 28, 2021	March 1, 2020
Canada	$ 565,591	$ 642,973
United States	291,732	337,616
	$ 857,323	$ 980,589

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:

	February 28, 2021	March 1, 2020
Canada	$ 458,729	$ 483,112
United States	307,987	297,434
	$ 766,716	$ 780,546

20 Commitments and contingencies

a) Product purchase obligations

At February 28, 2021, the Company had purchase obligations of $69.8 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 February 28, 2021, the Company had open letters of credit of $41.3 million (March 1, 2020 - $28.5 million).

(in thousands of Canadian dollars, unless otherwise noted)

21 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. and related entities which are controlled by a director and officer of the Company.

The Company entered into the following transactions with related parties:

a) During the year ended February 28, 2021, the Company made payments of $4.2 million (March 1, 2020 - $4.0 million) for lease of premises and management services and $0.7 million (March 1, 2020 – $0.6 million) for the use of an asset wholly or partially owned by companies that are owned by a director and officer of the Company. As at February 28, 2021, the outstanding balance of lease liabilities owed to these companies was $11.6 million (March 1, 2020 - $12.6 million). At February 28, 2021, $0.2 million was included in accounts payable and accrued liabilities (March 1, 2020 - $0.2 million). These transactions were measured at the amount of consideration established at market terms.

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

	February 28, 2021	March 1, 2020
Salaries, directors' fees and short-term benefits	$ 3,860	$ 3,981
Stock-based compensation expense	4,135	3,111
	$ 7,995	$ 7,092

(in thousands of Canadian dollars, unless otherwise noted)

22 Supplemental cash flow information

	February 28, 2021	March 1, 2020
Net change in non-cash working capital balances		
Accounts receivable	$ (3,183)	$ 82
Inventory	(79,508)	18,462
Prepaid expenses and other current assets	(9,332)	(1,351)
Other assets	1,265	(2,186)
Accounts payable and accrued liabilities	85,386	(1,444)
Deferred revenue	9,285	5,062
	$ 3,913	$ 18,625
Accrued purchases of property and equipment	$ 2,940	$ 6,168
Accrued purchases of intangible assets	-	266

23 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.

Risk management is carried out under practices approved by the Company's Audit Committee. This includes reviewing and making recommendations to the Board on the adequacy of the Company's risk management policies and procedures with regard to identifying the Company's principal risks and implementing appropriate systems and controls to manage these risks. Risk management covers many areas of risk including, but not limited to, foreign exchange risk, interest rate risk, credit risk and liquidity risk.

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.

As at February 28, 2021, 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 income.

(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 year ended February 28, 2021, 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 $0.8 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. As at February 28, 2021, an increase (or decrease) in the Company's share price by $1.00 would result in an increase (or decrease) of $0.3 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.

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 February 28, 2021 and March 1, 2020, no advances were made under this revolving credit facility. As at February 28 2021, the Company also had available credit of $75.0 million under trade finance agreements (March 1, 2020 – $75.0 million), of which $41.3 million of letters of credit were outstanding (March 1, 2020 – $28.5 million).

(in thousands of Canadian dollars, unless otherwise noted)

The following table identifies the undiscounted contractual maturities of the Company's financial liabilities as at February 28, 2021:

	Within one year	After one but not more than 5 years	After 5 years	Total
Accounts payable and accrued liabilities	$ 131,893	$ -	$ -	$ 131,893
Assumed interest on long-term debt [(1)]	1,649	379	-	2,028
Long-term debt	-	75,000	-	75,000
Total	$ 133,542	$ 75,379	$ -	$ 208,921

[(1)] Based on interest rates in effect as at February 28, 2021, and assuming no unscheduled principal payments are made prior to maturity.

24 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 11.